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NATO Bombings, West's 'Ultimatums' Scored

964E0003A Moscow ZAVTRA in Russian Sep 95 No 38, p 2

[Commentary by M. Podkopayeva: "Alliance of the Disavowed?"]

[FBIS Translated Text] Attention on the war in the Balkans has not waned in recent weeks. All sides are tensely awaiting Russia's reaction to the bombing of Bosnian Serbs by NATO forces. While NATO itself, alarmed at Russian claims that have recently resurfaced, including those brought up at a press conference with B. Yeltsin, is unambiguously demonstrating to the disturber of the calm how illusory are Russia's chances for realistically correcting the trends in Balkan policy that are not to its liking.

Using the Balkan events as a visual aid, the West seems to be gradually raising the policy of pressure on Russia to a qualitatively new level. For the first time it is issuing Russia systematic, ultimatum-style demands. Pointing to the Balkan scenario, NATO is showing what happens when such demands are not fulfilled immediately and without reservation.

Moreover, in the strategic sense the entire Balkans epic may well be intended "to teach Russia a good lesson." Including provoking it to unleash an unrehearsed foreign policy attack, so as to then counterattack along all geopolitical sectors and turn the Balkans precedent into a norm of punitive pressure.

So what does the Western ultimatum look like—the ultimatum that was presented to Russia along with the Balkan bombing?

The West's position with respect to Russia already links the Balkan problem with the theme of Russian-Iranian cooperation in the energy sphere that has been so painful for the West. In this regard, Germany has advanced the most rigid and definitive demands on NATO's behalf—to freeze, and ultimately terminate, Russian- Iranian cooperation not only in the defense sphere, but in the field of energy and science and technology.

Two major breeding grounds of problems in the post-Soviet world— the Balkans crisis and energy—are drawing dangerously near to one another. Here we should not dwell only on the extremely important trans-Balkan oil pipeline project upon Turkish closure of the straits. The issue is more global, more fundamental in nature: If Russia curtails the activity of Ministry of Atomic Energy south of the Caspian, Germany will do its utmost to "slow" movement of the North Atlantic bloc to the Bug and Tisza. "Slow"—they say! Nothing more.

The whole story involving Russian reactors in Iran is unfolding against the background of the powerful rise of Iranian geopolitical activity, including Iran's construction of a highway in the vicinity of Ashgabat, the laying of a gas pipeline from Iran to Armenia (reinforcing Armenia's position as a link in the chain between Moscow and the Near East), Iran's sharp and sudden blow against drug trafficking (promising to cut sixfold the drug volume arriving from Afghanistan) and, finally (last but not least), the gas pipeline project from Turkmenistan to Europe across Iranian territory.

The increased Iranian activity is accompanied by the display, frightening to the West (and exactly so intended, apparently), of an Iran-Iraq reconciliation. The prisoner exchange that is taking place, the promise of Iranian economic assistance to Iraq, and the planned Iran-Iraq alliance in their capacity as major oil producers are gradually shaping an embodiment of "Middle Eastern might" that will not be restrained, even through the infamous embargo. If we add substantive cooperation between Iran and Russia to this alliance—in all likelihood a tactical one, suppression of the emerging oil-producing and oil-refining "troika" then becomes quite problematic. In addition, recent sensational exposure of the real volume of Iraqi production of prohibited weapons varieties has once again raised the question of the danger of transfer by Russia of military and dual technologies to the planned Middle Eastern alliance.

In the sphere of geo-economic considerations, the ambiguous status of the Caspian endangers Western investments in Caspian projects. It is no accident that the Caspian is mentioned in the demands—essentially an ultimatum—presented to Russia against the background of punitive actions in Bosnia. In a recent conversation with journalists, the Iranian ambassador to Moscow called the intervention in Moscow-Tehran relations unlawful and characterized the Caspian as a priority zone in their (and none other than their!) mutual interest. Upon development, such an alliance of the two major proprietors of the Caspian coastal zone would not permit resolution of the problem of "proportional" fragmentation of its maritime space into shares that would be to the world community's liking, which in turn would make doubtful the oil extraction agreement already concluded.

Relations between Iran and the West are clearly and unambiguously defined by the word "nonacceptance." Iran is tightly fenced off from the West and has been forced to seek alliance with other disavowed parties. Will Russia join such an alliance of the disavowed? Or will it accept NATO's conditions and abandon the Caspian region and points south? Russia's remaining resources in its policy of maneuver are close to exhaustion.

Russia's Options in Balkan Crisis Assessed

964E0003B Moscow ZAVTRA in Russian Sep 95 No 38, p 2

[Commentary by S. Kurginyan: "A Micron Away From Apocalypse"]

[FBIS Translated Text] It all began once again with a shot, or more accurately, this time, with an explosion, in that same sadly well-known place—Sarajevo. True, the scope of consequences resulting from this explosion was not as great as that resulting from the shot of Gavrila Printsip 81 years ago. All the same, for a short time the world once again had to endure that forgotten, "aching" condition, seemingly relegated to the past, where Russia suddenly began to present its tough demands for continuation of the world process and declare that these must be taken into account, that it had no intention of simply being driven into the realm of geopolitical nonexistence.

This time, Russia seemed to be performing feats of geopolitical acrobatic flying. It began with Russian military specialists refuting the claim of Serbian authorship of the Sarajevo explosion that took several dozen lives and marked the beginning of the massive bombing of Serbian positions by NATO forces. This statement by the Russian military, made naturally with the knowledge of Russian political figures, contained several new overtones that were immediately picked up by sensitive Western ears.

First of all, Russia had struck quite a vulnerable sore spot in certain forces and structures with respect to which, even quite recently, it had not permitted itself as much as restrained toughness. Russia did not provide its materials to the Serbs, but instead expressed itself in the first person for all to hear. This constituted a challenge.

Secondly, for the first time in a long while, the Russian special services (referring, of course, to the activities of military intelligence and no one else) suddenly stated that they existed, and that they were even capable of fulfilling their obligations in a very critical and specific sphere. Prior to this, Russian special services attempted to create an entirely different image for themselves, convincing everyone that they intended for many years to come to engage mainly in providing all possible assistance to the social organization with the proud name Memorial.

Thirdly, the very subject touched upon by the Russian military special services was far from ordinary. The blow was inflicted upon the holy of holies—provocative special operations. Such a blow could not be inflicted at random. It had to be comprise a link in the chain of large-scale foreign political actions. And such actions began.

Following the statement of the Russian military, the entire world was affected by B. Yeltsin's tough and almost reckless statement that we were not limiting ourselves to humanitarian assistance, that the matter might reach the "heated" stage, and that NATO, in advancing to our borders, might detonate a war throughout Europe. Insofar as knowledgeable people understood that Russia had never limited itself to humanitarian assistance to Serbia, the allusion to the "heated" stage Russia contemplated "for dessert" to the world community elicited a sharp reaction. All argument concerning the Russian "dog" barking at the Western "elephant" was intended, of course, to produce a certain psychological and ideological effect in the everyday consciousness, no more. Fear of the "heated" aspect had its desired effect. The almost physical, reflex fear suddenly arising once again, the memory of the past, will long continue to govern the actions of Western politicians. And one must understand that these actions will in no way be aimed at taking Russia's interests into account, but rather toward effecting its accelerated and systematic suppression.

Then following the growling of the northern bear, particularly frightening against the background of its animal readiness to embrace fragile and timid Europe, came the statements of A. Lukashenka. One could smell the unification process in the air, the aspect that continues to frighten the West more than anything else. What if the bear gains consciousness, awakening with an empty stomach from sweet market-economy dreams in his cold, uncomfortable den? In his misery he unites, and having united, gathers strength. And then he sets upon them! Now we see how literally the prophecy can come true: "Are we to blame if your skeleton is being crunched in our heavy, tender paws?"

It soon became clear, however, that the bear was growling while half-asleep. Having begun to growl, he thrust a sharp-clawed paw out from his den, not at all intending to shift to practical actions with regard to the promised "heated" aspect. Perhaps he, the bear, intended to wake up naturally and bring back the good old days, but that proved somehow awkward and untimely. In addition, Strobe Talbott rushed in with enviable speed, displayed enviable resourcefulness, and demonstrated respect coated with vigilance.

In response to the half-obsequious, half-liontaming ability of the visiting political performer "who was showing respect," the Russian parliament received a presidential veto on its edicts on assistance to Yugoslavia. The minister of foreign affairs continues to be in charge of these matters and attempts to reach compromise with his previous versatility. What compromise?

Here begins the darkest and most tragic aspect of this entire political scheme with Russian participation—though not devoid of other colors and qualities as well. Neither Russian political figures nor most of the West understands, apparently, the entire scope of what is taking place in Serbia. After all that has happened, we still have no United Nations or Helsinki Agreements there, nor any of those fundamental norms of international policy and morals that constituted the internal spiritual and political framework of the old European and world order. The shameful word "punisher" has begun to resound almost proudly, and the punitive operation is becoming the norm of political life for countries that still consider themselves the bearers of Christian culture. The world of evenhanded political policies and refined political forms is being destroyed before our very eyes. It is contracting, sagging, drooping. The scope of this challenge is unprecedented. It is not the reality of decades that is being destroyed, but literally the geopolitical landscape of the 19th and 20th centuries, the landscape of that world which was formed during the course of the Russo-Turkish wars and following their completion.

What can Russia do, in its present form, to oppose this? What can Russia objectively do to respond to such a challenge? A roar transforming itself into a sleepy mumbling will not do. Here we require unprecedented effort, a tremendous amount of strategic will, and the mobilization of all resources—economic as well as military, spiritual as well as sophisticated political. Russia, unable to resolve the Chechnya problem and showing absurd behavior in Abkhazia, Crimea, and the Dniester Region, the Russia of shopkeepers and the nouveau riche, is simply not capable of responding to such a challenge. Policy cannot be conducted with rockets alone (which in no way detracts from their significance), even against the background of what took place this week in Plesetsk and the Baltic Fleet with a smoothly operating magic wand. We must effect the accelerated mobilization of all resources, precisely determine the measure of what is possible, and have the ability to lay out a solid boundary of tractability, prepare for the worst, and recall the human and political mechanisms Russia has used before to save itself when positioned a micron away from apocalypse.

Economic Issues

Official Ties to Organized Crime Figure

964E0033A Moscow IZVESTIYA in Russian 28 Sep 95 p 5

[Article by Boris Reznik, IZVESTIYA: "A Foreign Passport for a Crime Boss or the Ministry of Internal Affairs of Russia and the Mafia of the Far East"]

[FBIS Translated Text] One of the special services, within the framework of a criminal case it was investigating, was tailing the well-known Far Eastern criminal kingpin Vladimir Podatev, nicknamed the Poodle. "Surveillance" workers had followed him and bugged his telephones....once the "listeners" heard a telephone conversation that alarmed them. A soft baritone, as though overcome by the feelings of loyalty that filled him, reported:

"Vladimir Petrovich, your instructions have been carried out: The passports are ready, both for you and for you wife...."

The Poodle's call was from the chairman of the Ministry of Foreign Affairs of Russia in Khabarovsk, Vyacheslav Mikhaltsov. The subject was some foreign passports that had been sent to Podatev.

What does the big-time communist functionary (Mikhaltsov was in charge of the Industrialnyy Rayon Party Committee of Khabarovsk and he nominated himself as first secretary the CPSU kray committee but was not elected) have in common with the thieving kingpin who had been repeatedly convicted, including for robbery and group violence as a minor, about whom IZVESTIYA wrote in detail in an article entitled "Who Stands Next to the President?" (No. 2, 1995)? The only way to understand this is to look into the criminal cases and the operational files on local crime bosses and criminal kingpins.

"Read It and Eat Your Heart Out...."

Throughout the Russian expanses you will probably not find another territory where almost all the leaders of the crime world, evading the police OVIR [Visa and Registration Department] they dislike so much, have completely legal passports issued to them by the Ministry of the Foreign Affairs of Russia. Mikhaltsov had done favors not only for the leaders, but also for their underlings with "hammer-and-sickle" documents, and several of them—two or three at a time.

Recently in Moscow they literally riddled with bullets the well- known Far Eastern crime boss, Vadim Belyayev, whose nickname was Belyay and who had been convicted four times. The murder is being investigated and a number of other documents make mention of the foreign passport of the deceased which he obtained in the Khabarovsk office of the Ministry of Foreign Affairs.

In general, even according to the rules of our times of "democratic" lawlessness, in order to obtain a foreign passport it is necessary at least to go through a special investigation to make sure that the individual has not left behind a "trail" of crimes: He must not have been convicted or be under investigation at the given time. Therefore the law stipulates that a Russian citizen may obtain a document to travel abroad only in his place of permanent residence and registration. Mikhaltsov simply bypassed that. Within a month he issued foreign passports to the Chechnya natives Balat Dasayev (registered and resides in Moscow), Ranzis Shabayev, Yakub Vakhabov....

We shall not try to guess whether all Mikhaltsov did was commit serious abuse of office unseen by the beautiful eyes of the Caucasians. But investigators have mentioned to me stunning sums that are now paid on the black market for the fine cloth-bound "commodity" that gives one the right to cross state borders when, alas, it is impossible to obtain this right through ordinary means because of understandable circumstances.

Vyacheslav Mikhaltsov put out a large number of foreign passports for the Far Eastern population. Ill-gained profit was received from this especially by agents who became....dealers for the office of the Ministry of Foreign Affairs. The old consular "honchos" from the tall building on Smolensk Square in the capital would probably be horrified and confused if they found out, for example, that the retired warrant officer Igorek during his free time had set up an entire consular service, deciding whom to give foreign passports and for how much. From the heights of Ministry of Foreign Affairs (he had Mikhaltsov's confidence) he did not give a damn about the laws in effect in the country which prohibit accepting foreign exchange as payment in addition to the "unspecified" amounts in Russian rubles, he always took $100 from each client "for his services." And in order to gain more clients he published announcements in the kray newspaper: Anyone who wants one can obtain a passport without excessive paperwork and red tape.

Igor Velichko received guests in an office he rented for only one hour a day on Leningradskaya Street, but he earned so much money there that, as the inquiry shows, "he dreamed of using this money to pay for a container of goods" which he had purchased in Italy. The end apparently justified the means and Igorek was not squeamish about anything: "On the documents filled out he entered information about citizen's labor activity which he knew to be false, using the stamp of the entrepreneur Otrezov, and then he forged his signature...."

Let us note that the legal price of a Russian general civilian foreign passport is relatively low—equal to twice the minimum wage, that is, at the present time it is about 110,000 rubles [R]. The blank document itself costs another R1,650. Velichko got almost a million from each of his clients. Obviously this kind of money was paid by people who had it to burn or those who had something to hide, who did not want it to "surface" by obtaining a passport the usual way.

In addition to passports, Mikhaltsov's department handles one other thing that is in "short supply," which costs a great deal of money—visas. Regular and multiple-entry. As the investigation established, there are just as many abuses here.

....The Ministry of Foreign Affairs is a special department and each communication from its officials is a matter of policy. This situation makes it necessary to be extremely selective in contacts and communications. I had occasion to look at the materials from operational photographs and videotapes: Mikhaltsov is walking down the alley and speaking confidentially with a well-known Khabarovsk crime boss. In another one he was sitting in a restaurant with other criminal kingpins. In still another—he was hanging around a casino.... The investigators were really not trailing Mikhaltsov, but he inevitably ended up in the picture.

Who You Hang Out With

Can you imagine interests further apart than, say, the daily concerns of the Ministry of Foreign Affairs office and the commercial deliveries of alcoholic beverages? In our case they were woven so closely together that several criminal cases were generated all at once, including for such "heinous" articles of the Criminal Code as "attempted murder" and "bribe taking"....

All this began when a certain Khabarovsk merchant, quite nice- looking on the surface, dressed to the nines, who posed, depending on the circumstances, either as a retired colonel or some figure in the arts, but always a close friend of the cosmonaut Grechko, looked up the Sanvey firm in Moscow, which supplies Moldovan wines, and reached an agreement to have four carloads of the sparkling beverage delivered to his address "for sale." The wine arrived and along with it one of the directors of Sanvey, Yevgeniy Lyalikov, who suddenly became very suspicious of the merchant Yakov Strizhevskiy— he was the one who verified the transaction in Moscow. He sent an inquiry and found out that the "colonel" and "figure" had spent many years in places not so far away, where he had been sent for swindling. Strizhevskiy's attempts once again to "rob" a possible business partner were so obvious that Lyalikov considered it better to look for another firm. And one was skillfully suggested to him by....Strizhevskiy.

Valentina Buynaya, an extremely good learner, had not worked for him very long, about three months, as it was later learned. But the lady was sent to Strizhevskiy's firm, Agroservis, by her "good friend" Viktor Lobkis, who at that time was deputy chief of the administration of Khabarovsk Kray for agriculture. He was the one who helped her later to "branch off" from Strizhevskiy, creating a new company—FBK (Fomin-Buynaya-Kuznetsova).

Incidentally, the firm was kept afloat by Buynaya alone. Fomin drank continuously, and from the very beginning Kuznetsova was included among the founders as a figurehead: She was Lobkis' natural daughter and the money was designated for "assistance and advice" which the high-ranking kray chief promised to provide for FBK.

Valentina Buynaya went to Lobkis for help as usual when Strizhevskiy fixed her up with her wine partners: It was necessary to come up with R100 million to pay the railroad fare. In such a case, where could the former first secretary of the Komsomol Oblast Committee of the Jewish Autonomous Oblast and the first secretary of the Obluchinskiy CPSU Rayon Committee go? To another friend, of course, a comrade-in-arms in the party and the Komsomol. Mikhaltsov did not refuse and issued Buynaya R100 million from a nonbudget fund of the office of the Ministry of Foreign Affairs with the stipulation, as she asserts, that she return 130 million within a week.

Let us be fair: Valentina Dmitriyevna had many opportunities to return the ill-gotten millions on time. The sale of the wine went well and her assistants quickly collected an immense number of boxes at the trading points, obtaining a significant amount of cash on the spot. But the talented student of Ya.P. Strizhevskiy decided to surpass her teacher and sell the same commodity....more than once. To begin with she found an extremely serious buyer—the Nakgrefi firm, which was founded by a family of banks, including two European ones. Together with Ye. Lyalikov (the same one who so quickly "saw through" Strizhevskiy) she was preparing forged documents and showing Nakgrefi representatives wine that had not been shipped but had already been sold and....she was selling it a second time. Nakgrefi transferred to Sanvey in Moscow R600 million in the hope of obtaining 784 million from Buynaya within a month.

In the meantime, relations between Mikhaltsov and Buynaya were deteriorating. In her words, she gave the representative of the Ministry of Foreign Affairs 17 million of what he demanded in excess of the 100 that was borrowed. But he demanded no more or less than 60 (!) million for himself personally.

From V. Buynaya's testimony:

"....Mikhaltsov shouted at me, he said that if I did not return the money with all the interest immediately he would destroy my firm and drive me out of Khabarovsk. I thought that his demands were limited to 60 million, but after our discussion [begin bold] his mafia came to my mafia [end bold] (emphasis mine—B.R.) and said that I already owed Mikhaltsov 80 million. Of course I was upset and I went to Lobkis and said: Since Mikhaltsov is going to be that way, I will not give him any money at all. Lobkis saw that I had a tape recorder and asked why I had it. I answered that I did not trust anyone, that I recorded everything, including Mikhaltsov...."

Buynaya did indeed have her "protection"—the hefty fellows from the sports group and former policemen called her their protector, receiving 1.5 million and more from the FBK. They became actively involved in the saga of the wine and helped her sell small batches at trading points.

Should She Have Kept Her Mouth Shut?

....After the conversation with Lobkis, Buynaya was upset, she went to the firm, and at about 2000 she returned home. Usually she was accompanied to her third-floor apartment by Dmitriy Pava—her driver and an especially trusted person who was completely devoted to the financial affairs of the firm. This time there was a light burning in the courtyard and Valentina Dmitriyevena decided to go up by herself. On the landing between the second and third floors stood a nice looking man about 27- to 30-years-old. He kept his hands behind his back. When Buynaya was even with him he took out a metal pipe and hit her on the head as hard as he could.

The doctors said later that two circumstances saved her life: her fur hat and the fact that the building is located just a couple of meters away from the "Emergency" hospital. Several operations were quickly done on Valentina Dmitriyevena, and after that she spent three more months wavering between life and death.

After a criminal case was filed for attempted murder the investigation proceeded in episodes related to the office of the Ministry of Foreign Affairs and the swindling of Buynaya herself and her cohorts. Further, as is always the case in our country, when any people of any significance are mixed up in criminal cases the matter is tied up in red tape, and broken down into episodes, the investigation of which is assigned to the least skilled people. And that is the way it all went here. The investigator of the kray procuracy, S. Sukhonos, as early as June and July separated out from the criminal case involving abuses in the representative office of the Ministry of Foreign Affairs individual files of materials regarding Velichko and Buynaya. At that time the materials were sent to the city procuracy of Khabarovsk in order to plan the investigation. From there both cases were sent to the city internal affairs administration. Recently at my request they dug through all the registration journals there—and the cases were not in them. We found them unexpectedly in the investigation division of the Tsentralnyy Rayon police station. It was not until that very day when the IZVESTIYA staff correspondent intervened that these cases were accepted by a young investigator—a correspondence student in the second class of a local police school.

I went to the kray procuracy for explanations. They called for the cases immediately and right there wrote instructions to the investigation administration of the kray internal affairs administration:

"....In spite of the large amount of work on the aforementioned cases, their difficulty, and their crucial nature, investigation of them has been assigned to an individual who has little experience in investigation work, a student in the second course of a police school. The investigation was not conducted and the case was drawn out and involved a lot of red tape...."

And what happened after that? The cases were returned....to the same young lady-investigator in the second course....

But something eerie happened with the saga of the wine. The kray procuracy arranged the schedule for Buynaya's driver, Dmitriy Pava, in order to question him as a witness. He disappeared without a trace. A week later his decomposing body was found in a deep gorge about 3.5 kilometers from the village of Vinogradovka. They killed Pava just as they had tried to kill Buynaya—they crushed his skull. The investigator from the procuracy of Khavarovsk rural rayon (also, incidentally, a correspondence student) canceled the investigation of the murder of the driver "because of the inability to establish the individuals who committed the crime." He had no inkling of the events directly related to the person and recent activity of the deceased and he did not even have any likely versions of what happened....

"I Am Exchanging Criminal Liability for Deputy Immunity...."

The kray procuracy informed the Ministry of Foreign Affairs of Russia of everything that was being done in its Far Eastern office. A commission headed by A. Senenov, chief of the Department of the Consular Service, arrived. The Ministry of Foreign Affairs workers were terrified and promised to report on everything immediately to their highest leader and....they disappeared. They did not answer the investigator's questions, they did not send the necessary documents, their telephones did not ring....

In the meantime, Mikhaltsov was eagerly working to get into big- time politics. In the kray he was known as an unbending Bolshevik, and then later as an avid democrat. Now we find him with a different look—a confirmed agrarian. He has registered as a candidate deputy for the State Duma on the list of the Agrarian Party of Russia. In any case, he has insured himself and is gathering signatures to run for deputy status in a single-mandate district as well.

Attempts to hide behind deputy immunity from the encroaching criminal liability, incidentally, had become an extremely widespread phenomenon. In Khabarovsk Kray alone several Duma candidates have successfully combined evading investigation on criminal cases filed against them with active election campaigning. It is a sad mark of our times: "Only theft can save us from an audit and only parliament can save us from jail."

Crime Penetrates Commercial Structures

964E0036A Moscow KOMMERSANT-DAILY in Russian 17 Aug 95 p 10

[Interviews with Professor Dmitriy Olshanskiy and entrepreneur Kakha Bendukidze, by unidentified KOMMERSANT correspondents; place and date not given; under the rubric "Business and Ethics": "Flying High Will Not Save You From the Bullet (From Business Folklore of the Mid-1990's)"]

[FBIS Translated Text] Yesterday night a memorial vigil was held at Lubyanka Square in memory of Ivan Kivelidi, Rosbusinessbank president and president of the Russian Business Roundtable [KSBR] movement, who died on 4 August. Such events, following the demise of yet another prominent entrepreneur, have become a tradition: Ivan Kivelidi is the ninth victim among KSBR members, and Oleg Kantor, whose murder was the cause of the KSBR's previous protest action, was the 22d head of a large financial institution to be murdered by hired killers. All this makes one seriously ponder what is happening in the business world today. KOMMERSANT attempted to find out the opinion of a number of prominent entrepreneurs and social scientists regarding the nature of the wave of violence that has overcome Russian business lately.

Routine Murders Will Be Increasingly More Routine

The new monthly report from the Center for Strategic Analysis and Forecast, which came out at the beginning of August, is called "'Playing Dead' in Politics and Ordinary Murders in the Economy." The report, summarizing July developments, was delivered to customers two days before Ivan Kivelidi's death. In July, however, there was only one sensational murder—that of Yugorskiy bank president Oleg Kantor. Thus, the center, headed by Professor of Psychology and Political Science Dmitriy Olshanskiy, justified its name by predicting the alarming trend that enables us to render in the plural a phenomenon deemed to be of equal significance to the most important economic phenomena. A KOMMERSANT correspondent asked Professor Olshanskiy for comments.

[KOMMERSANT] Dmitriy Vadimovich, did you guess or anticipate that Russian business will not get away with just one death over three weeks?

[Olshanskiy] In making forecasts, a lot hinges on intuition. I do not know what prompted me to change the title at the last moment, but instead of "a murder" I wrote "murders." Still, I see a clear trend in what is happening.

[KOMMERSANT] What is happening?

[Olshanskiy] A very simple thing. In 1990-1991, entrepreneurs operated individually; now they are in "teams." Therefore, infighting and conflicts inside the "teams" are directed inward. Time creates new layers of relations in the business world, which turns them into a multi-tier system. Within it, even businessmen themselves cannot always identify the source of a conflict. Let alone investigators, or the entrepreneur's rivals and entourage.

[KOMMERSANT] What do you call a team?

[Olshanskiy] A team is the people money-making links you with. Business partners, personal partners. Your relations depend directly on your method of making money. The method defines the relations. Such are the rules of the game. If the method of making money is criminal, the relations will be criminal. And third: The method of making money also clearly defines the method of conflict resolution. And this is precisely what, unfortunately, has become a trend; this is what begets murders. At some time, perhaps even without you wishing it, criminal structures were a part of your money-making mechanism, criminal methods were used. This is enough for them to come to you now and remind of their presence. That is why these murders are practically unsolvable. Structures get more complex, relations branch out—try to get to the root of this all. The aforementioned Ivan Kivelidi, when he was questioned in the hospital (and I am certain he was asked), surely could not tell anything. The further e go, the more such murders there will be.

[begin box]

Vladimir Ivanovich Shcherbakov, president of the Inter- Privatization Fund, KSBR member

Here is our version of Ivan Kivelidi's death: Criminal business is trying to conquer civilized business and bring it into its sphere of interests. Other versions are now being proffered: for instance, regarding KSBR's conflict with the "big eight" Russian banks, or that Kivelidi had been trying to get into the heavy metals trade. In my opinion, the purpose of these versions is to divert the investigation onto the wrong trail.

The aim of this sensational murder, I think, is simple: to scare off civilized business. The criminal world is demonstrating its capabilities: We can kill you this way and that way—with a grenade, with a machine gun; or we can even poison you.

We know of cases where gangsters tried to get hold of controlling shares of stock of enterprises, put their proteges into top management positions, and transfer money to the accounts of proxy companies. The criminal world's activism grew when foreign trade preferences were repealed, excise stamps introduced, order brought into casino operations, and the work of tax organs improved. The state is controlling the situation increasingly better, and control organs are working increasingly more professionally. That is why the criminal world had to hustle.

When Stepashin and Yerin were still at their posts, we heard this: They know of more than 2,000 criminal organizations, they said, and their leaders, by name and surname. There was only one thing they did not say: Why are these people still free? When the president issued the edict on combating banditism, the first victim of this edict was.... Lev Vaynberg.

Yes, at the stage of the initial accumulation of capital, many smart people managed to make enormous money, taking advantage of the fact that there was no legislative regulation of their activities. The scope of the wealth they earned was incommensurate with their efforts. But let us not mix up the cunning of an entrepreneur who has gotten around the law with respect to taxes and all sorts of preferences and criminal methods of making money. A gangster does not get around the law—he tramples it. Civilized and criminal types of business are quite clearly delineated in our country. Although I have to admit that the barriers between them are not yet strong and quite often honest and criminal business mix.

[end box]

There Is No Mystery Here

[KOMMERSANT] The theory of "old ties" is too universal—there is no mystery here. There are rumors of unresolvable conflicts in banking circles. There have been murders of prominent entrepreneurs and bankers before. Why such mayhem now, of all times?

[Olshanskiy] Yes, something is happening with the banks too. The first wave of banks earned capital on the ruins of the USSR. Then came the second wave of commercial banks—meaner, more active—which cleared the field for themselves and also became respectable. And now new waves are coming: Regional banks are engaged in a bitter fight with those in the capital for control of local markets. Look: An open battle is underway in Yekaterinburg between a man backed by Moscow money and a man representing local money. This is one of the causes. As to the two latest murders, apparently, quantity simply has been transformed into quality. I would not get obsessed with obvious versions: that with aluminum and bauxite becoming a hot item, Kantor was killed.

[KOMMERSANT] Excuse me, but a host of murders are associated with aluminum, which has long defined this sector as "hazardous to the health."

[Olshanskiy] Yes, but recall the past overall history of Kantor, and Yugorskiy bank: It was founded exactly four years ago—on 16 August 1991. On the eve of the putsch, by the way, and almost from nothing. It gained strength because big money was funneled through it. But the money was soon gone, and the bank was relegated to a miserable existence. The air was let out, and the balloon deflated. Naturally, Kantor started to look for ways to revive it. But was this the original cause? I think I am within the realm of the possible—and I want to repeat that this is only a guess—if I say that the old money-funneling business is more relevant than the recent sudden rise. Kantor's murder in a certain respect had the attributes of a ritual—numerous wounds, sophisticated cruelty. That is, for society it became a ritual murder, although those who committed and ordered it may not have thought about it this way. They simply showed that even such a man could be killed. I saw Kantor last September, about a year ago; he lived in gloom and kept saying: "I am my bodyguards' slave." There was a certain phobia; he wanted to live a normal life. There was a sense of doom.

Anyway, this ritual murder could have been the result of a resurfacing of old ties with people with whom it is impossible in principle to strike a deal.

[KOMMERSANT] It is known, however, that our entrepreneurs frequently have to strike deals with the most notorious gangsters.

[Olshanskiy] It is an illusion that you can strike a deal with a gangster. That you can pay him, and everything will be fine. No. You see, this is a special type of personality—specialists know it well. You cannot explain to a gangster: Wait a couple of days, I will earn the money and pay you. He has a different logic—the logic of effect, of immediate action: You have to give him this money right now. When dealing with a normal person, you can impose your logic or adapt to his. And find a compromise. From your viewpoint, it will hurt him too if he kills you and does not get the money. But his logic is different: By killing you, he gets satisfaction. Today. And if you adopt their logic, you become like them. You operate by their logic just once, and it will come back to haunt you. You cannot know when. But it will come. You pull a gun—you get killed by a gun.

[KOMMERSANT] Nevertheless, we hear that business is becoming more civilized, that banks are beginning to get interested in long-range projects, trying to develop an image of respectability. One would think that this should diminish the amount of "rough play."

[Olshanskiy] Exactly—trying. This brings to mind Shishkov's novel "Ugryum-River." The rise of capitalism in Russia. A young merchant—enlightened, a philanthropist—he understands everything. But he inherited his capital from the grandfather. And his grandfather was a murderer.... The third generation—yes! But those who made their capital five years ago—no matter how they change clothes, their capital is stained, the psychology is the same, and he cannot get rid of the old ties. Life is not a notebook—you cannot tear out a page. When someone shows up from your old life and reminds you of the old language, you begin to speak the old language. And since you know how to do this, you will never become....completely clean. Take the Morgan dynasty, one of the most respectable families in the United States. Who now remembers Morgan the pirate? But could Morgan himself put on a white collar?

[KOMMERSANT] Nevertheless, he was presented to the Queen's court.

[Olshanskiy] Yes, and appointed governor of an island. But he ruled by piratical methods. And what you are saying: The market has become more civilized.... No. It has not. It is just that the rules of the game have become more complicated and new ones added. That is, you can no longer just grab something—you now have to properly put a paper together and shake hands. Nevertheless, this is all an accouterment. If they decide to kill you—they will. Remember Kvantrishvili. How hard he worked on his image as a honest man, and what a wall he erected between the past and the present. And all his bodyguards. And what happened? A sniper decided everything for him and for others. The past reaches you.... "Manuscripts do not burn, but documents surface." The same with people—they come.

[KOMMERSANT] This all sounds so hopeless....

[Olshanskiy] Why hopeless? Wait! Wait for the third generation. It took the Wild West 200 years to travel this road. What do you want—for a person to shed old ties and old habits overnight and become different?

[KOMMERSANT] Let us formulate the question differently. When will it all end?

[Olshanskiy] I would venture this: Contract murders will end in two years. By that time, all the customers will be killed off.

[KOMMERSANT] This is unlikely to end as long as there is big business.

[Olshanskiy] Did you notice that truly big business is not being allowed to emerge? Why is it that major figures, those who have managed to accumulate strength and capital, are being killed off? And notice that liquidating the person always spells the end for the structure he headed.

[KOMMERSANT] What do you think about the KSBR adopting a code or charter on the rules of honest conduct of business?

[Olshanskiy] Entirely an illusion. It will not work. A framework agreement is possible, like the Sukharevo convention. Remember how "Lieutenant Schmidt's children" made a deal among themselves? Say, let us divide Russia into zones or markets and kill less of each other. But as soon as some party to the agreement sees an interest in violating it, he will violate it at the first opportunity. It is only a question of the scale of risk.

[KOMMERSANT] And the scale of temptation?

[Olshanskiy] Yes, and the stakes. Do not shudder—this is reality. A banker of my acquaintance told me: "Do not believe the talk about all these banking associations—a banker is always another banker's mortal enemy. And not because we do not love each other. We do. But objectively, being an entrepreneur is a risky business, and there is nothing but bitter competition between bankers." The methods, however—this depends on how the person got the money initially. How he became a banker. Then you will understand the logic of relations and rules in which he grew up. And something else on the subject of banking unions. These days they are not set up to be solid and enduring. They join, they grab, they scatter. This does not unite. On the contrary, money obtained together separates. Both at the stage of dividing it up and later, at the stage of remembering the division. Wrong cut, and so on. Entrepreneur is in fact a risky profession. There cannot be any trade union of private owners. Only hired labor, people who do not own property, can have a trade union.

[KOMMERSANT] What strikes one in your reasoning is the insistent analogy between the behavioral laws in the entrepreneurial and criminal milieu. Do you seriously put an equal sign between entrepreneurs and criminal elements?

[Olshanskiy] Stop; this is wrong. Let us replace the word "criminal" with the word "transgressor." And then let us agree that we are all transgressors. We all transgress certain old rules of the game. In the situation where new rules of the game have not yet been written or are not yet fully established, you, and I, and the banker—we are all transgressors. A banker who set up his bank in 1990-1991—did he not commit some transgressions with respect to the old rules of the game? After all, everything hinges on his personal bravery, his willingness to take risks, his energy—did he not trample the law? Many times. But not because he wanted to! How many times did I, with my independent center, have to bypass administrative instructions, and the bureaucrats resigned to it. I trampled instructions. And a gangster, who is usually not too smart and is poor—he tramples what he can trample: human life. Those guys who take apartments as collateral? They throw people out on the street, render them homeless, push them into crime. A bank! A clerk in armlets, with clean hands—does he not kill people? In all honesty? He also tramples things, creating new rules of the game, a new society, call it whatever you want. We are all transgressors, in the sense of common behavioral mechanisms. The only question is when it is a criminal transgression and when it is not. At this point it is not always clear. Take the example of Mavrodi. When did the state get interested in him?

[KOMMERSANT] When his business began to reach its peak.

[Olshanskiy] When the volume began to reach trillions. Everybody saw: He is competing with the state! Had everything been handled more cleverly, this money could have gone into the budget, but he used a loophole in the law and violated nothing. Nothing except people's trust. There is no such article in the Criminal Code, but he went beyond the limits. And became a transgressor.

There will always be crime. There will always be people stepping over the line, opening new opportunities for society. There is a famous saying: A criminal is a social critic of society. He points out the holes: Fix them. Crime cannot be uprooted. You can limit the obvious criminality—encroachment on life and....playing without rules. Encroachment on property is permitted, however. There are the most ingenious combinations as a result of which people get rich. Soros played on the pound's exchange rate—and became Soros. There was nothing criminal there. The guy from Baring's was less lucky: He was arrested, but the funny part is that it looks like they do not know what to charge him with. Did he encroach on property? He did, because if something increased in one place, there was a decrease in another—the Lomonosov-Lavoisier law. But....by the rules of the game accepted in society. Which means, you can. Or invent a new article in the criminal law—an article specially for Mavrodi.

[KOMMERSANT] By the way, at least Mavrodi did not run. Or did not have a chance to. But Erlan did run. Despite having been a respectable company.

[Olshanskiy] A purely psychological question. Each person defines for himself the boundaries of the permissible. Some are satisfied with little. But for others, the game is the meaning of life. Andrey Klementyev, for whom the entire Nizhniy Novgorod police in on the lookout, and who has $20 million of his own, has not left the oblast. He is in hiding, and gives telephone interviews, Dudayev style, to local newspapers saying: "I will wait for the elections and topple Governor Nemtsov." This is the way he sees the situation for himself. In this sense the criminal and the entrepreneur have a lot in common. Both set their own goals and choose the means. A law- abiding person does not overstep the limits, but neither is he an entrepreneur. He operates within the bounds set by someone else.

[KOMMERSANT] Regarding the rules of the game. In the United States everything is sorted out and tagged: On this street you can walk, and on that one do not even open a car window or you'll get stabbed. We do not have such delineation: You can get killed on either side of the street.

[Olshanskiy] What we have is society's disintegration on the atomic level, where each thinks only of his own interest. This is a war of individuals, of everyone against everyone. And it will continue until limits are set in people's heads: This is criminal, this is not. Until the new rules of the game are established.

[KOMMERSANT] Which means that murders will snowball?

[Olshanskiy] There is usually a quiet period after a sensational murder. In the fall, however, it will begin again. This time, politics will play an important role.

[KOMMERSANT] In connection with the elections?

[Olshanskiy] Yes. These will be cutthroat elections.

[KOMMERSANT] Will politics get into crime or crime into politics?

[Olshanskiy] Both. Head of the Moscow Oblast administration Aleksandr Tyazhlov has already said on television that threats are being made against those who intend to run in single-seat districts. Because the situation is being decided for four years ahead. And the opposition will wage its final and decisive battle. All structures will have something at stake, and there will be enough for financiers to divide. So you can expect more tension in the fall.

Either Shoot Gangsters, or Become a Gangster

The famous entrepreneur Kakha Bendukidze does not give interviews to journalists often. But on this sad occasion he found things to say on the pages of KOMMERSANT. His interview is also interesting because Mr. Bendukidze, on one hand, is a member of the KSBR, and as such, an advocate of "clean" methods of doing business. On the other, he is known for his independent and pragmatic attitude toward the current processes, which enables him to speak without beating around the bush in any audience.

[KOMMERSANT] In your opinion, what is the cause of the recent tragic events?

[Bendukidze] I do not know precisely. It may have something to do both with score-settling and with criminal circles' attempts to subjugate commercial structures. When an enterprise director, a commercial director gets killed—this is a way to establish control. Of course, there are elements of what is called "black arbitration." But this is not the most important part. It seems to me that we are seeing a merging of commercial and criminal structures, and criminal groups play not so much the role of arbitrators as participants in the process. There was less of it in the past.

[KOMMERSANT] In which process?

[Bendukidze] Commercial structures' development. Criminal groups have become a component part of conglomerates that include industrial enterprises, financial structures, and the mass media—it is hard to tell who is who.

[KOMMERSANT] Do you have a concrete example?

[Bendukidze] There are examples (I will not mention any names) of enterprises manufacturing hundreds of billions or trillions worth of products that are either owned or controlled by criminal groups.

[KOMMERSANT] In your opinion, why is this happening in Russia?

[Bendukidze] Because the state is watching it indifferently. It is a prisoner of several myths. The liberal-economic myth: This is a process of initial accumulation of capital; everything will settle, ferment, and turn into a good wine. Criminal groups will gradually get legalized, criminals' children will go to Cambridge and Oxford, and their children will flutter over trees like butterflies. This is a normal process. The apparat myth: The decision on the question already has been made, instructions and directions given, and the criminals' days are numbered. The democratic myth: We have to develop democracy by strengthening the court system—the third branch. Some law enforcement organs are blinded by the myth that this is the bankers' own fault: Let them work honestly or kill each other off.

All these myths do have some real grounds. But one has to understand that criminal groups have a principally different ideology of state building, a different psychology. And that time flies by fast, and they could already be winning today. The liberal- democratic state system and free market are not the only possible option. There are examples of a free market-oligarchic system— Paraguay, prewar Japan. There are situations where the state is hostage to the criminal world (Colombia), where the strength of the state and criminal clans are equal. Many people do not take this into account. It is disgusting to hear some people say that it was the same way in America and then worked itself out! But it did not work itself out in Paraguay!

The process may come to an end very quickly. We already know that deputies of different levels are associated with gangster formations. Moreover, this process is gaining momentum. So it may turn out that in a year or two the situation will get out of control, with a substantial amount of authority ending up in the hands of people who are one way or another linked with organized crime.

[KOMMERSANT] So perhaps those who blame the businessmen themselves are right?

[Bendukidze] Of course, from Tolstoy's viewpoint, it is everybody's fault. However, 90 percent of businessmen operate honestly, and 10 percent do not. So why blame all 100 percent? Why does the state not crack down on gangster formations? I, for instance, do not understand why the authorities, which have information on all the criminal groups, would not crack down on all of them at once. I am not prepared to publicly criticize the authorities: As long as there is a tax police, you cannot be in opposition.

[KOMMERSANT] But there are other situations too—when business itself turns into a criminal operation.

[Bendukidze] If the government does not take radical steps, it will all turn criminal. There is a certain territory where one structure operates by methods A, B, and C. A is a good financial policy, B is the sound organization of production, and C is murder. Another one operates only with methods A and B. Who will win the competition? The former. What is left for the latter to do? Kill in response. And he will see this not as his own criminalization but as assuming the functions of the state, from which the latter has removed itself.

[begin box]

Oleg Kiselev, president of Mosexpo company, KSBR member

We have reached the limit, where following the old course of events leads to fatality. The degree of businessmen's self- extermination is too high. It is time to sit down and make a deal. I proposed at the KSBR to sign a charter on nonuse of violence and the threat of violence in business. Some believe that if they sign it they will be thereby admitting that they used violence in the past. But the charter will create a foundation. For instance, if a banker signs it, and someone else does not, then the banker will not give him a loan. The charter will allow the signatories to treat nonsignatories as unreliable counteragents, who will then have to say goodbye to the status of authorized agents and licenses for certain types of activities. In the United States, mafiosi clans have cut a deal, and there are no major wars between groups. Even the Sicilians have worked out a deal. Are Russian businessmen more stupid? The main problem among us is that we hire criminals to kill each other (I am not speaking of myself personally). In 90 percent of the situations, the violence stems from entrepreneurial circles.

Violence in business is not a question of big or small money—it is a question of morals. We know that legal tools have not been worked out. If a debtor does not repay a debt to his creditor, nobody will put him into jail—he can only be threatened. On the other hand, the people who are getting killed most often are not those who owe money but those who are owed money. Then, there may also be a following scenario: I want to buy the stock of a particular plant, and someone else wants to buy it also. I have more money, but the other guy has a gun. He will not be able to buy stock with the help of the gun or poison—this is simply a demonstration of force, to keep others out.

Is it possible to operate without violence? Yes! I do not shoot. But nobody is safe from being shot. I am sick and tired of spending money on protection; I am tired of being afraid. The larger part of Russian business is linked to criminal structures. The question is not whether we can do without it or not. We have to do without it. If we let this malady become chronic, criminal penetration of business will become all-encompassing, and mutual extermination will begin. The wave of violence will get out of hand, and in a minimum of a year all business will become criminal. In this case, I, for instance, will not be able to remain in business. No money or valuables are worth risking your life. I will buy a house in the Alps or go fishing on the Baykal. The danger of failing to stop the process is real: The new generation is learning that a gun is the best argument in a dispute, and your guarantee is that a bullet can pierce human tissue.

[end box]

[KOMMERSANT] Can one conduct legal business in Russia without fear that sooner or later one will be targeted?

[Bendukidze] Of course not. What is a market economy? When you compete freely for the consumer and the resources—financial, material, and human—you always step on someone else's toes. What he will do in such a case is unpredictable. There was the following incident: We explained our position absolutely honestly in a certain joint-stock company, and many people there supported us. But the person who was the chairman asked the gangsters to explain to us that we are wrong. We are still sorting out this problem.

[KOMMERSANT] Can entrepreneurs protect themselves from criminals, or is the state their only resort?

[Bendukidze] I am not convinced that they can do anything. They can pay taxes. Set up a special fund? This fund is called the Russian Federation budget. The state is supposed to protect me. I remember this story: In the 1950's workers' strikes rolled over the GDR and the presidium of the German Socialist Party issued the statement that the Central Committee was disappointed in the German people. To which Bertold Brecht wrote a poem: If the Central Committee does not like the people, the poem went, it can disband them, and get itself new ones. It is the same here: people serve the state, the state does not serve the people.

[KOMMERSANT] What is your opinion of the proposal to write a code of honor for entrepreneurs?

[Bendukidze] I have thought about it. There was an idea to draft an All-Russia Arbitration Treaty, for a group of manufacturing, financial, an trade structures to work out a judiciary system. But the question here is the critical mass. All right, so the two of us have this agreement—so what? This should be a mass phenomenon. When 10 more bankers get killed, maybe it will happen. Although the murder of Kantor and Kivelidi shook up a lot of people: They were widely known people and quite outstanding too. But in the struggle between the private and common interest, the common one wins. The problem is: How do you fashion private interest in such a way that will make life normal? For instance, arm everyone—if we act on the premise that the person serves the state, I have the right to protect myself. Or the state says: Delegate this right to me. We have delegated it, but it cannot handle it—apparently we are not honest enough to protect ourselves. The result is that the state serves itself.

[KOMMERSANT] In your opinion, what does criminalization of the state mean?

[Bendukidze] Well, imagine that in a certain city all the members of the duma and the head of administration are gangsters. They run the transportation system, municipal services, and impose their order on the city—all with the help of gangsters. There is no gentle way out of this situation. The next elections either will not take place, or they will be conducted in the gangsters' interests. Within the next two years either this process will take place in most regions, and then the fate of these territories will be sealed for a long time. Or this situation will somehow be changed.

[KOMMERSANT] How?

[Bendukidze] Execute all the gangsters. The only way to stabilize the situation is a strict authoritarian regime aimed at a transition to a normal economy directed at freeing the person from slavery and nurturing democracy. A sort of Taiwanese-Chilean option.

[KOMMERSANT] When entrepreneurs of your acquaintance get killed around you, are you not tempted to go into hiding, to get out of this business?

[Bendukidze] "To die, forget, drop off to sleep, and dream." I think a lot of people start thinking about retiring. Why is there not a significant number of large, stable commercial structures in Russia? One of the reasons is that many could not take it any longer, gave up, and emigrated. A person with a normal psyche and developed intellect cannot head a commercial organization in Russia—he will either die or be killed. Most likely he will die before he gets killed. The stress is unbearable. Many of my acquaintances live in a state of constantly frazzled nerves, because you cannot predict anything—there is no stability.

[KOMMERSANT] With this kind of pessimism, how do you view the prospects of your own business?

[Bendukidze] If in two years what I was saying does happen, the situation will become unpredictable. Our business may become part of a new type of "gangster formation." It is a structure based on the principle of a personal union, a sort of a clan cutting through boundaries of spheres, which includes deputies, ministers, journalists, bankers, industrialists, merchants, and bureaucrats. And gangsters.

[begin box]

The opinions expressed on this page by prominent businessmen and political scientists are interesting not so much for their apparent differences as for their real similarities. Everybody acknowledges that violence in Russian business has become an everyday phenomenon and that it threatens to take the economy completely outside the legal space. The difference is only in the attitude to this phenomenon: whether the process is irreversible and by what means it can be shifted onto a different track.

The problem is that both those who resort to violence in their operations and those who do not cannot feel protected. For understandable reasons, our KOMMERSANT correspondents were unable to interview those who order and carry out murders; however, some experience of contacts with even quite solid entrepreneurs shows that in daily business practice, if not physical elimination, then at least "roughing up" is frequently seen as an effective method of conducting negotiations with partners. And this is the reality of business life in Russia—which promulgates actions in response, thus further driving the flywheel of violence.

One may assume that violations of business ethics (if one can give such a mild name to contract murders) are by nature the same as the methods of force used for conflict resolution in hot spots of the former USSR. In this sense the rules of the game in the era of a "grand shakeout" (property, territory, ideologies) become the result of the creativity of the masses, and success comes to those who are better armed.

The peculiarity of the situation lies in the fact that today entrepreneurs themselves fear where this lawlessness is leading. The most active and "conscientious" of them strive to work out written laws of business honor. The most pragmatic ones appeal to the state. However, in the current situation the police cannot "execute all gangsters"—it is not within their mandate, and anyway, the democratic course chosen by society is not conducive to such experiments. What remains is to resign oneself to waiting for new instances of "violence against business," or hope for "a dictatorship in favor of business." Which is also violence. [end box]

Shumeyko Role in Phillip Morris Sale Viewed

964F0007A Moscow KOMSOMOLSKAYA PRAVDA in Russian 29 Sep 95 p 5

[Article by Vladimir Zaynetdinov, KOMSOMOLSKAYA PRAVDA special correspondent: "KOMSOMOLSKAYA PRAVDA Investigation. Why Shumeyko is Called Vladimir Phillip-Morrisovich in Kuban"]

[FBIS Translated Text] Krasnodar-Moscow—The Krasnodar Tobacco Factory has been sold to the world-famous Phillip Morris Corporation—at one time this news was presented as an outstanding result of the reforms. Today the editorial department has come into possession of materials showing that the "cigarette transaction" can confidently be included among the outstanding scandals of the decade.

KOMSOMOLSKAYA PRAVDA Files

The Krasnodarskaya Tobacco Factory imeni Professor Smirnov is the kray's largest enterprise for producing tobacco products. It produces cigarettes both of the highest class like Kosmos and third- grade cigarettes for mass consumption like Prima, Astra, BAM, Volnitsa, etc., and also smoking tobacco for pipes. As of the time it was converted into a joint-stock company—the summer of 1992—the output of cigarettes amounted to about 5 billion a year, and it employed 930 workers.

The factory was converted into a joint-stock company in compliance with the president's edict No. 721 of 1 July 1992; 51 percent of the shares were bought up by the labor collective and 49 percent were turned over to the state. The overall number of shares with a nominal value of 1,000 rubles [R] is 73,025.

On 15 September 1993 in an investment competition Phillip Morris bought actually the controlling block of shares in the Krasnodar Tobacco Company, bypassing its main competitor—the largest American tobacco corporation, R.J. Reynolds (its calling cards are Winston, Salem, and Camel cigarettes).

This was a surprising victory: After all, the losing Reynolds Tobacco offered almost three times (!) as much for the factory as Phillip Morris did!...

What did the commission find so attractive about the tight-fisted firm? The first one to try to answer this question was the former head of the kray administration, Dyakonov—he had been a builder in the past. Vasiliy Dyakonov—a candidate of economic sciences and professor of the Russian Academy of Sciences—was not, however, sophisticated when it came to apparatus intrigues and he was unable to oppose the conspiracy of underhanded bureaucrats and merchants, for which he paid with his career.

How the First Governor Was "Invited To Leave"

Vladimir Filippovich Shumeyko did not forget his native region after moving from Kuban to Moscow. Or his compatriots either. His authorized representative among the deputies was the former chairman of the Rossiya Kolkhoz in Lavinskiy Rayon, Nikolay Dmitriyevich Yegorov—a distant relative of Vladimir Filippovich. He was also recommended by Shumeyko—already the first deputy chairman of the government—as first deputy chief of the kray administration for agriculture.

Quickly becoming head of the government of Kuban, Yegorov automatically became the protector of the kray tobacco industry. His "protectorship" ended in scandal: One fine day it was discovered that about R5 billion in excise taxes (this was a fantastic sum in 1992) escaped from the kray's budget each quarter (!). Where to? To the Rezervtabak joint-stock company, which was created with Yegorov's knowledge.

Having practically a monopoly on supplying the factory with raw material, Rezervtabak farmed out almost 70 percent of the products it produced. In order to avoid payment of excise taxes, the cigarettes, manufactured but not packaged, were shipped to Bryansk to a packaging plant where they were transformed into a commodity....

The freeloading ended as soon as the governor at the time, Vasiliy Dyakonov, found out about it. A decision was immediately adopted to stem the tide of tobacco excise taxes flowing out of the budget. Nikolay Yegorov had to go.

But one warm October evening in 1992 some uninvited guests came to the governor's house—the general director of Rezervtabak, Mr. Khabliyev, surrounded by a large guard. The conversation was brief: Do not interfere, esteemed Comrade Dyakonov, serious people do serious business—this meeting is described in the journal OTECHESTVO by Vasiliy Dyakov.

Some suggestions followed as well: a) Return Yegorov to the position of the chairman of the Kuban government; b) reconcile with Yegorov publicly, on TV

("Shumeyko will help with this, he will scold you for your disagreements, and then you will shake hands"): c) abolish the decree on tobacco excise taxes and in general do not interfere.

For all this, Dyakonov writes in OTECHESTVO, he was promised R200 million.

Vasiliy Dyakonov sent Mr. Khabliyev on his way and flew off on a business trip. And upon returning he heard on the radio about his resignation. The reason was a criminal case against the governor regarding some alleged illegal keeping of arms discovered by the kray internal affairs administration. (While the chief of the administration was travelling his house was searched. They found a registered automatic weapon from the commander of the Transcaucasian Military District, which had been given to him in the summer of 1992 as a gift for helping to supply the district with food. But it is known that Dyakonov turned this automatic weapon over to the kray internal affairs administration.) It is not known how they put through the edict to remove Dyakonov. But it is known for certain that while he was gone, Vladimir Shumeyko came to Krasnodar. The leaders of all the law enforcement organs gathered at one of the dachas and Vladimir Filippovich had a long conversation with them about something.

It is also known that the criminal case regarding the registered automatic weapon was supervised personally by the chief of the Krasnodar Internal Affairs Administration at the time, Latyshev. After Dyakonov's removal the case was closed because of the absence of elements of a crime, and General Latyshev was transferred to the central apparatus of the Ministry of Internal Affairs of Russia as chief of the Main Personnel Administration.

How the "Tobacco" Was Sold

....On 29 September 1992 the president of the Phillip Morris International Investment Corporation, Mr. Andreas Gembler, wrote "to the first deputy prime minister of the Russian Federation, Vladimir Filippovich Shumeyko:

"....After our discussions we held a meeting with the leaders of the city of Krasnodar and also local representatives of the State Committee on the Administration of State Property. In Krasnodar we were received very well and I thank you for your efforts in this area.... Our visit to Krasnodar was extremely successful and we signed the attached chapters of the Agreement with the Krasnodar Tobacco Factory on cooperation in the area of their planned privatization.

"....In one year this program will more than double the installed production capacities and also significantly improve the quality of the products that are produced.

"The Phillip Morris Company....is also implementing an agronomical program which involves raising Virginia strains of tobacco and the Burleigh strains of tobacco in Krasnodar Kray.... In the future we intend to use this tobacco to produce American brands of cigarettes, which will be produced at the Krasnodar Tobacco Factory.

"....We urgently request that you support Phillip Morris in the matter of acquiring 49 percent of the shares in the privatized Krasnodar Tobacco Factory, which was sold by the State Committee on the Administration of State Property. If we gain your support, we would like to ask you to order the State Committee on the Administration of State Property of Russia to issue the corresponding instructions regarding this question to their division in Krasnodar....

"We are very grateful to you for the fact that during your visit to the United States, in spite of your busy schedule, you devoted some attention to us and visited our production center in Richmond...."

Mr. Shumeyko "granted" Mr. Andreas Gembler his support immediately after Dyakonov was fired, sending on 23 October 1992 to the chairman of the State Committee on the Administration of State Property of Russia, A. Chubays, an order—A4-P6-3953—(called a "mustard plaster" in the apparatus) with an execution deadline of 27 November 1992:

"Esteemed Anatoliy Borisovich! Taking into account the development of Krasnodar Kray, I support the intention of the Phillip Morris firm to acquire 49 percent of the shares."

Can one really be surprised that the individual appointed governor of Kuban was....Nikolay Dmitriyevich Yegorov?

And as early as 23 June 1993 the chairman of the Krasnodar Kray Soviet, Aleksandr Zhdanovskiy, instructed the kray property fund "to sell to the Phillip Morris Company 49 percent of the state-owned shares." Zhdanovskiy deliberately violated the law "On Privatization of State and Municipal Enterprises," which **does not envision the sale of shares in enterprise to a specific investor through direct negotiations** (boldface by the author). But what can you do if a telegram came from Moscow the night before, saying: The factory may be sold only to Phillip Morris?

An unexpected scandal occurred right here. Another tobacco firm (and a no less respectable one), R.J. Reynolds Tobacco International S.A.—a subsidiary of the famous Winston—got word of the closed competition. Phillip Morris had to immediately find an escape for the Krasnodar patriots. And they found one.

A member of the competition commission, Natalya Artemenko—a chief specialist of the GKAP [State Committee of the Russian Federation on Antimonopoly Policy and Support for New Economic Structures] Administration—was called out of her office in the middle of the day. In the corridor she was awaited by two unknown people who appeared to be Caucasians. Without preliminary explanations, one of them said: "Phillip Morris must win in the competition. And if you do not agree—you have a five-year-old daughter...."

The investment competition took place on 15 September 1993. When they opened the envelopes containing the business plans it became clear: Phillip Morris was offering $60 million for the tobacco plant and Reynolds Tobacco—$167 million "greenbacks." The president of Reynolds Tobacco, who came to the competition in person, rubbed his hands together....

As it turned out, this was premature.

The results were announced the next day:

"....The declared winner in the investment competition is....Phillip Morris International Investment Corporation. Votes 'in favor'—unanimous."

As eye witnesses attest, at that moment the eyeglasses of the president of Reynolds Tobacco fell off his nose. "This is the first country I have ever seen," the American explained, "which does not need $100 million dollars! This is some kind of 'monkey business'!!!"

After which, the completely amazed president quickly collected himself and flew back across the ocean.

How We Were Offered a Smoke

The promises from Phillip Morris "to double the production and improve the quality" of Krasnodar products and to increase the number of jobs were, judging from reports in the newspaper KOMMERSANT, just empty words. The output of cigarettes as compared to 1993 has decreased by a factor of 1.5. The sales volume has decreased by 22 percent and losses amounted to R4 billion, while the price of cigarettes (and these are mass-consumed Prima and BAM) "has been increasing ever since the factory has had a new owner." Regarding the once-promised Virginia "Burleigh" tobacco not a word has been heard. As concerns the quality of the "Krasnodar" Marlboro, Kuban smokers do not mince words: "Shit in a foreign wrapper."

And Phillip Morris today is all-powerful, without any restrictions, the master of the Krasnodar tobacco plant. The Americans own 82.2 percent of the shares in the enterprise (they started out, as you will recall, with only 49 percent).

How They Feel

Nikolay Dmitriyevich Yegorov during the summer of 1994 moved from being a governor to a position of minister of nationalities affairs—a deputy prime minister. Having displayed "exceptional" capabilities in the reconciliation of Chechnya, after the Budennovsk tragedy, he resigned from both the deputy prime minister and the ministerial posts. True, he did not fall into complete disfavor but was given the position of presidential adviser on questions of national policy—an adviser on Cossack affairs.

Vasiliy Nikolayevich Dyakonov has returned to the Ministry of Installation and Specialized Construction.

Vladimir Filippovich Shumeyko has become chairman of the Federation Council of the Federal Assembly of Russia and at the same time chairman of the Interparliamentary Assembly of the CIS (in Kuban he is called Vladimir Phillip-Morrisovich).

*Development of Arctic Shelf Discussed

954E1517A Moscow KOMMERSANT-DAILY in Russian 23 Sep 95 p 3

[Article by S. Slyusarenko: "Choice Is Limited in Russia: If Not Siberia Then the Arctic"]

[FBIS Translated Text] **The second international conference on assimilation of Russia's Arctic Sea shelf, which included the participation of 100 Russian and 50 western companies, has ended in St. Petersburg. Boris Nikitin, head of the organizational committee of the conference and director of the Rosshelf company, expressed confidence that extraction of Arctic oil will begin as early as in 1998.**

In Search of an Alternative

The principal reason for elaboration of the plan for development of oil reserves on the Arctic shelf is quite clear and was not concealed by participants of the conference. It is the exhaustion of oil and gas deposits in Western Siberia (every two out of three Western Siberian deposits have been exhausted by more than half). There is another reason which, it is true, was not discussed very much at the conference: the loss by Russia of numerous oil and gas deposits located in republics of the former Soviet Union—Azerbaijan, Kyrgyzstan, etc.

The selection of Arctic oil reserves as an alternative to the exhausted Western Siberian deposits is also not too surprising considering their relative richness and lack of development.

KOMMERSANT-DAILY: The Arctic seas (Barents Sea, Kara Sea, etc.) contain around 87.5 percent of the Russian shelf oil and gas reserves, the eastern ones contain around 11.5 percent, while the southern seas (Black Sea, Sea of Azov, and Caspian Sea) contain slightly more than 1 percent. The total area of the Russian shelf makes up one-fourth of the world shelf. [end KOMMERSANT-DAILY]

According to Anatoliy Fomin, deputy minister of fuel and power engineering, just in the last few years 10 deposits (two oil and eight gas and condensate deposits) have been discovered in the area of the western Arctic region. They include some very large ones such as, for instance, the Prirazlomnoye Oil Deposit and the Shtokmanovsk Gas Condensate Deposit. The problem consists of the fact that Russia, by contrast with Norway, the United States, or Canada, so far does not have any experience in the assimilation of offshore Arctic oil and gas deposits. The various foreign companies, Amoco, Exxon (United States), Total (France), Canmar (Canada), Statoil (Norway), BHP Petroleum Ltd. (Australia) and others, are offering help and support and not only in the form of advice, but in the form of investments as well. For that, naturally, they should like to participate in the development of the deposits. It is notable that Russian authorities are not opposed to the involvement of these firms in the assimilation of Arctic deposits. As declared at the conference, at the present time, in addition to the government program for assimilation of the shelf, a presidential edict is also being prepared which provides for the granting of various preferential terms to those companies involved in operations near the Arctic coast. Russian enterprises of the military industrial complex have also become interested in developing the shelf, since even such large programs present them with a real opportunity to improve their financial affairs.

Gazprom Goes Underwater

Offshore extraction of oil and gas is an independent, a completely independent branch of industry throughout the world. According to participants of the conference, Russia will also reach such a state of affairs. The basis of such a highly promising and very profitable branch is already being created at the present time. Boris Nikitin, director of Rosshelf, informed a KOMMERSANT-DAILY correspondent that Gazprom has already been working for the past several years jointly with several western firms to work out the technical and economic parameters of the Prirazlomnoye and Shtokmanovsk deposits. By the way, initial expenditures on assimilation of the first deposit are estimated at $1.5 billion, and those of the second one are $3.5 billion. Altogether the cost of both projects is about $18 billion. It is understandable that it is too difficult to carry out such a program alone because of which Gazprom secured the support of international organizations—IBRD [International Bank for Reconstruction and Development] and the International Financial Corporation. As far as the participation of Russian banks in the project is concerned, according to Mr. Nikitin, it is planned to involve their cooperation somewhat later, while at present it is possible to get by readily without them.

KOMMERSANT-DAILY: The Gazprom Russian Joint-Stock Company is the holder of a controlling package of shares (51 percent) of the Rosshelf company, which, in turn, has a government license to assimilate shelf deposits. In 1994 Gazprom created a subsidiary enterprise called Gazflot, which became the principal ordering organization for the design and building of specialized floating equipment and drilling platforms. It is planned to distribute orders from Gazflot among Russian enterprises, including defense industry enterprises. [end KOMMERSANT-DAILY]

It is necessary to take into account that assimilation of the Arctic shelf of Russia is a much more difficult task than the development of shelves of other countries. A land and offshore infrastructure is absent in the proximity of the Russian deposits, for example. As indicated by many representatives of the military industrial complex at the conference, this even inspires them inasmuch as this will make it possible to utilize the unused production potential. According to preliminary data, assimilation of the shelf will lead to the creation of around 200,000 new jobs within the next several years.

Legislative Support in the Development of the Shelf

As declared at the conference by Artur Chilingarov, deputy chairman of the State Duma, so far the main law which regulates the development of the shelf is the law on mineral resources. In part, it determines the basis for legal regulation of relations in mineral resource utilization and the order of granting licenses for exploitation of mineral resources. In accordance with the law, however, payments for utilization of mineral resources of the continental shelf flow exclusively into the federal budget. That, naturally, does not suit the administrations of krays and oblasts which will be compelled to participate in operations on the assimilation of the shelf but at the same time will be unable to count on any revenues (by the way, that is what apparently explains the almost total absence of representatives of regional authorities at the conference, with the exception of those from the Nenets National Region).

A substantiated guarantee of a stable legal regime and return of capital invested in the Russian economy, from the viewpoint of Artur Chilingarov, is provided by the law on agreements on the division of production. Participants at the conference, especially the foreign ones, did not quite agree with this, considering that the law, with all of its pluses, still requires the creation of an additional mechanism for its realization. In addition, for secure work by western investors on the shelf and in order for the oil to start flowing out of the northern seas as early as in three years, in the opinion of one of the representatives of the Australian BHP Petroleum Company, it is necessary to eliminate a mass of bureaucratic obstacles—for example, it is necessary for authorities to approve technical plans and contracts on division of production.

On the last day of the conference the participants found out about a most remarkable event. The Ministry of Fuel and Power Engineering, the administration of St. Petersburg, the Rosshelf company, and the Russian Joint-Stock Gazprom Company signed an agreement on the creation of a financial structure called Fond Shelf-95. The plans of that fund, which will be registered as a legal body in the very near future, specify the involvement of various government and business circles in a discussion of economic, technical, and scientific problems connected with assimilation of offshore deposits. Specialized scientific-technical conferences will be conducted on a regular basis for that purpose. It is planned to open offices of the fund in Moscow and St. Petersburg.

*Insurance Finances Viewed

Health Insurance System Must Raise Premiums

954E1523A Moscow SEGODNYA in Russian 23 Sep 95 p 3

[Article by Irina Rozenberg: "The Compulsory Health Insurance Fund Is Insisting on an Increase in Rates: the Nonworking Population Is "Eating Up" All the Premiums"]

[FBIS Translated Text] **The Law on Health Insurance for Citizens in the Russian Federation was passed in 1991. Currently operating in Russia are the Federal Compulsory Health Insurance Fund and 88 territorial funds which have more than 1,100 branches. Participating in the compulsory health insurance system are 6,137 medical institutions, of which 30 percent are outpatient polyclinics and 70 percent are inpatient institutions (around 700,000 beds), and certain departmental institutions. The number of insured persons comes to 99 million persons. The number of insurance cases is currently 244.6 million, including 7.2 million hospitalized cases.**

A press conference was held yesterday on the results of the international conference, The Role and Place of Health Insurance in Healthcare Reform, at which the work of the compulsory health insurance (OMS) system in Russia was discussed.

The press conference's participants characterized the work on the creation of a system for insurance premium collection as "efficient": whereas, in 1994, premium collection by the territorial OMS funds amounted to 90.2 percent of the plan, it was 97.4 percent of the plan in 1995's first half. In all, over the 2.5 years of the OMS system's existence, insurance premiums and payments in the amount of 13 trillion rubles [R] have been collected. At the same time, over all of 1994, R6.1 trillion were collected, while R5.9 trillion have already been collected over this year's first half.

According to the Federal Compulsory Health Insurance Fund's representatives, the structure of the money spending by the OMS funds changed. Thus, in 1993, when the system was just taking shape, 60 percent of the collected money was spent. In 1994, the share of expenditures in the total of all the available money, taking into account the previous year's surplus, equaled 82.2 percent (R5.5 trillion), while almost 90 percent of the total of all the current receipts (without considering 1993's surplus) has gone for expenditures. In 1995, the OMS funds' spending is closer to the receipts total: in the year's first half, it amounted to 98.6 percent.

However, the territorial OMS funds have been forced to spend money from the fixed insurance reserve which, in 26 of them, is already below the prescribed one-month reserve and the OMS system is getting ever closer to a state of financial instability. Whereas, in 1994, the expenditures for 21 territorial funds exceeded receipts, this year, such a situation has been noted already in 34 territories.

In the opinion of the Federal Compulsory Health Insurance Fund's representatives, without an increase in the insurance premium rate and the amount of the payments for insurance for nonworking citizens, in 1996, the OMS system will not be able to provide funding for the territorial programs even at the present-day level. This is explained to a great extent by the fact that the share of the payments for insurance for nonworking citizens within the OMS system's revenue structure comes in all to just 25.4 percent, while the ratio of the working and nonworking populations in Russia is equal to 40 percent and 60 percent, respectively.

Every third outpatient polyclinic participating in the OMS is using a payment method based on an estimate of the institution's expenditures. Inasmuch as this payment method does not depend on volume and quantity, then it is impossible to optimize the treatment institution's activities — there is no mechanism for "tracking the money for the sick."

Insurers To Provide Investment Funds

954E1523B Moscow SEGODNYA in Russian 22 Sep 95 p 4

[Article by Mariya Tatevosova, the Praym Agency: "Insurers May Invest 15 Trillion Rubles in the Economy in 1996"]

[FBIS Translated Text] Aleksey Razuvayev, president of the Rossiya [Russia] Insurance Company, reported at a press conference on the results of the off-site meeting of the Insurance Advisory Council that Russia's insurers may collect 15 trillion rubles [R] in 1996 and invest them in the domestic economy. The Insurance Advisory Council met on Tuesday with First Deputy Prime Minister Anatoliy Chubays participating. The main matter was the examination of the draft of a decree on measures for insurance protection for the property interests of investors in the RF [Russian Federation]. The document provides for the development of measures associated with the implementation as of 1 January 1996 of a law on including in production costs insurance premiums in the amount of 1 percent of the value of the output.

According to the experts' estimates, once this law goes into effect in the Russian insurance market, the swell of property insurance will come down, since industry will get an actual opportunity to insure their facilities and internal assets using the production cost of products. However, Russia's insurance market, in the insurers' opinion, is not currently ready to assume the large risks in view of its small capacity. This indicator is determined by the insurance reserves established by the companies, which are formed basically through property types of insurance, which are not widespread in Russia. In the situation which has emerged, either the industrial risks will be reinsured in the West or the enterprises should proceed along the path of the establishment of their own small insurance companies which will in no way strengthen the Russian insurance market.

In the event that the risks are transferred abroad, more than 50 percent of the insurance premium will leave the country. In addition, the transfer of part of the insurance reponsibility also assumes in a specific sense the transfer of part of the ownership rights. In other words, the foreign insurers, in assuming the risks, have the right to impose on the insured party their own procedures for the implementation of preventive measures at insured facilities.

In the situation which has emerged, the Russian insurers, in the person of the large insurance companies Rossiya, the Industrial Insurance Company, ROSNO and MAKS, have proposed to the government the following alternative solution — the establishment of federal reinsurance companies or a large national insurance pool with state participation. At a minimum, there should be 3-4 companies, in order to rule out the possibility of monopolization of the insurance market. Since risk assumption is regulated by a company's insurance reserves, it is necessary to set aside in the budget around R1 trillion. This reserve is necessary according to the Law on Insurance for damage payments when an insurance claim is filed.

The granting of state guarantees to the established insurance structures will produce for the budget supposed revenues on the order of R8 trillion. In the insurers' opinion, in the event that federal companies are established, the Insurance Institute of Russia will be ready to collect and to invest in the domestic economy something on the order of R15 trillion. In addition, the establishment of such a powerful insurance institute will be a strong incentive for the domestic insurance market's development and will increase its capacity. Nevertheless, the Minfin [Ministry of Finance] representatives on the advisory council turned down the opportunity to set aside money for insurance in the 1996 budget. The only way out of this situation may be an appeal for money by the insurers to other Russian financial insitutions. The Insurance Advisory Council was established more than a year ago and it is headed by First Deputy Prime Minister Anatoliy Chubays.

*Federation Council Overriding Presidential Veto of Bill

964E0057A Moscow KOMMERSANT-DAILY in Russian 4 Oct 95 p 1

[Article by Vadim Bardin: "The President's Loss Plays Into the MFER's Hands: Federation Council Overrides President's Veto"]

[FBIS Translated Text] The first thing the Federation Council did upon convening after the recess was to override the president's veto of the law "On State Regulation of Foreign Economic Activities" (see details on the beginning of the Federation Council's work on p. 3). The deputies, rested after the summer vacation, demonstrated a fighting spirit (133 deputies of the 140 present voted to adopt the law) and finally put an end to a lengthy battle around the distribution of VED [foreign economic activities] control levers.

The law has a tumultuous history. It includes a renaming (at birth the law was called "On Foreign economic Activities") and two vetoes, despite which the president now must sign it within the next seven days.

The first veto (on 7 June 1995) was a result of the parliament's attempt to take arms trading under its control and put in the law's text a direct ban on registration of contracts for exports of raw materials, practiced by the MFER [Ministry of Foreign Economic Relations]. At the time, this put an end to efforts to change the current mechanism of regulation—the Duma agreed with the president. The MFER kept registration rights, and arms exports, as before, are regulated by presidential edict.

On 7 August a second veto unexpectedly followed. Presidential advisers discovered that the law was pulling the chair out from under the State Committee on Military and Technology Policy. This body, created by a presidential edict on 30 December 1994, is tasked with monitoring both the implementation of military-industrial programs and arms exports through the issuance of relevant licenses. Meanwhile, Article 12 of the law, in full conformity with WTO [World Trade Organization] requirements, which envisage the existence of a single body in charge of export licensing, says that "the only body of state authority issuing licenses to carry out operations of import and export of items with respect to which there exist quantitative restrictions or permit requirements" is the MFER. Parliament members' patience ran out, and they saw the president's second veto as an excess. On 12 August the State Duma overrode it by a two-thirds vote, and yesterday Federation Council deputies sided with their colleagues. Presidential intervention did not help the committee's head Sergey Svechnikov, while the MFER further strengthened its position.

The most interesting part, however, is that while passions were seething around the law, the main innovations it brings into the regulation of VED (namely, legalizing administrative protective measures permitted by WTO rules—not only quotas or licenses, mainly on imports, but also the possibility of direct state takeover of the export and import of individual commodities) essentially already has been implemented. KOMMERSANT has reported on the commission on protective measures in foreign trade, set up in advance back in November 1994. On 2 August 1995 its chairman, Deputy Prime Minister Oleg Davydov, approved the "Temporary Rules for Conducting Investigations for the Purpose of Applying Protective Measures With Respect to Goods Brought Into the Customs Territory of Russia." The temporary rules essentially put into regulatory practice Article 18 "Protective Measures With Respect to the Import of Goods" of the not-yet-enacted law. The spectrum of possibilities in import restrictions has expanded considerably: In addition to regular duties, VAT, and excise taxes, quantitative restrictions in the form of import quotas may be applied, as well as antidumping and compensatory duties.

The introduction of temporary rules not only demonstrates how the executive branch can get ahead of the legislative—it also evidences that a law by itself is not enough for building foreign trade redoubts. Russia is a member of the customs union, which also includes Belarus and Kazakhstan. Which means that to implement protective measures, the action of the Russian authorities is not enough—what is needed is the concurred-upon decision of Moscow, Minsk, and Almaty.

*Report on Parliamentary Hearings on Budget for 1996

964E0057B Moscow KOMMERSANT-DAILY in Russian 6 Oct 95 p 2

[Report by Boris Boyko under the rubric "The Budget Process": "The Government Is Convinced That It Is Inappropriate To Bargain Over the Budget"]

[FBIS Translated Text] The budget process is in full swing. After preliminary work during September, the Duma's Budget and Finance Committee has defined its position regarding the budget submitted by the government: The budget must be dramatically revised. However, in the course of yesterday's parliamentary budget hearings it became clear that the cabinet does not intend to budge on key budget issues.

As often happens, parliamentary elections became simply an excuse that gave all who wanted to the opportunity to speak out on the subject of the budget. This is easy to explain: Over a month of work in the budget committee the sides had enough time to discuss the entire budget, and the result was not encouraging: It was recommended to reject the document in the first reading. The committee's main gripe is that the draft is based on an unrealistic forecast of macroeconomic indicators and inflation rate (1.2 percent a month), on the basis of which all the budget indicators were calculated. The recommendations presented for the hearings say unequivocally that the budget has to be recalculated on the basis of an average monthly inflation level of 3 percent. Otherwise, the result will be 40-50 trillion rubles [R] of additional revenue (as happened this year), which will not be reflected in real budget outlays. The most irreconcilable opponents of the government even suggested that this was all done intentionally, in order to create the appearance of budget execution.

In the course of yesterday's hearings the government for the first time publicly presented its position (a number of key statements were made outside the main hall). Minister of Economics Yevgeniy Yasin called criticism of the budget unfair. His counter-arguments boil down to the following. The 1995 tactics were correct (inflation dropped from 18 percent in January to 4.6 percent in August and the expected 4.5 percent in September), and therefore a course toward financial stabilization was taken in the 1996 budget as well, in order to ensure growth in production and investment. This is all doable only if inflation stays at 15-20, or a maximum of 25, percent a year. As to an average monthly inflation of 1.2 percent, in Yasin's words, it appears unlikely, but it is possible."

Minister of Finance Vladimir Panskov spoke out even more bluntly. He said that increasing the average inflation level in the forecast to 3-5 percent will only result in a two- or threefold increase in the budget deficit and the necessity of covering it with Central Bank credit. The only result of this will be a renewed inflation tax on the population. In addition, Panskov made it clear that in this case Western creditors will refuse to restructure Russia's debt and reduce the amount of payments in 1996 from $16 billion to $8 billion, which will also hurt the budget. In a conversation with journalists, the minister spoke out even more bluntly, laying to rest the working group's two weeks of hope that the government will present a recalculated version of the budget. He put it straight: "We would rather have the budget not adopted at all than have it adopted with a 3-5 percent inflation factor. Retreating from the course built into the budget means retreating from reforms. Bargaining is inappropriate."

Nevertheless, Budget Committee Chairman Mikhail Zadornov said this at a press conference: "I hope that the government will change its position; however, keeping in mind this year's experience, it will take a big step of conciliation on the part of the government." As to Western investors, in Zadornov's opinion, the solution is simple: "We have to change the policy and take a more active position at the negotiations."

Given such statements, it is unclear how a compromise could be found. Therefore, the minister of finance's prognosis yesterday sounds quite realistic: "If this Duma membership does not adopt the budget, we may not have a budget throughout the entire next year." The only question is how much harm it will do to the country.

[begin box]

Duma committee's main criticisms of the budget presented by the government

—Budget projections are done on the basis of an understated average monthly inflation rate

—Formation of the revenue part of the budget is based on retaining the current tax system, with insignificant and arguable changes in the tax law.

—There are no calculations supporting R12.1 trillion in revenue from privatization and R5 trillion in revenue in the form of Central Bank profit.

—Analysis of the draft's structure does not support the government's contention that the budget is socially oriented. [end box]

*Reduction in Export Duties Anticipated

964E0052A Moscow FINANSOVYYE IZVESTIYA in Russian 3 Oct 95 p 1

[Report by Aleksey Portanskiy: "Reduction in Export Duties Expected Any Day Now"]

[FBIS Translated Text] Although the reports of the expected reduction in export duties going into effect 1 October did not come true, they nevertheless have quite solid grounds. A decision to substantially reduce export duties may be adopted very soon.

Aleksandr Livshits, presidential adviser on economic issues, did not rule out such a possibility in a conversation with FINANSOVYYE IZVESTIYA; he said that before the repeal of all export duties, earlier set by the government for 1 January 1996, partial steps in this direction are possible.

Anticipatory decisions to reduce export duties were adopted after 1 September under pressure from exporters, who lost profits because of the introduction of the foreign exchange corridor. Export duties were reduced on average by 30 percent (with the exception of fuel and energy), and by 50 percent with respect to ferrous metallurgy output. This was followed by a presidential edict prescribing continued work in this area.

Last week Anatoliy Chubays instructed the Ministry of Economics to submit proposals on a further reduction of export duties. Such proposals were prepared on 27 September and delivered to the government apparat on Friday. We learned that the proposals envisage reducing to zero export duties on mineral fertilizer and ferrous metals, with the exception of ferrous metal scrap and ferrous metallurgy waste. Also, in keeping with the first deputy prime minister's instruction, the Ministry of Economics document envisages a reduction of duties beginning 1 October.

However, in keeping with existing practices, the government considers a proposal of this kind only if it is submitted jointly by the Ministry of Economics, the Ministry of Finance, the Ministry of Foreign Economic Relations, and the State Customs Committee, and has the concurrence of interested agencies. This has not happened yet—representatives of the aforementioned agencies have been invited to a conference A. Chubays will hold on 4 October. It is quite possible that at this conference not only will the agencies' positions be coordinated but a decision will be adopted in principle on reducing export duties.

*Government Seeks Solution to Investment Policy

954E1518A Moscow EKONOMIKA I ZHIZN in Russian Sep 95 No 38, p 1

[Article by V. Kamyshka: "Government in Search of Internal Reserves"]

[FBIS Translated Text] **The editorial office of EKONOMIKA I ZHIZN receives many letters from readers concerned about deterioration of conditions in the availability of credit for capital construction and a decrease of centralized financial resources used for capital investments.**

That is not surprising since the continuing curtailment of investment activity in the country is leading to the further physical and technical obsolescence of fixed capital, the wear of which has already exceeded 50 percent.

What steps are being taken by the government in order to resolve the problems of investment? Is it possible to halt the decline of investment activity in the national economy?

At the request of EKONOMIKA I ZHIZN, V. Kostyrko, director of the Department of Construction and the Building Industry of the Ministry of Finance of the Russian Federation, speaks about key measures being taken in the state investment policy.

In the first six months of 1995 enterprises and organizations with all forms of ownership (including those with foreign investments) assimilated capital investments in the amount of 77.9 trillion rubles [R] which is 18 percent less than in the same period last year.

The share of funds owned by enterprises and organizations increased in the structure of capital investments by source of financing (up to 62.3 percent compared with 58.3 percent). The specific share of investments out of the federal budget shrank from 15.0 to 11.5 percent.

Under conditions created by a complex economic situation, the following constitute real steps toward the stabilization of the Russian economy: introduction of the resources in uncompleted construction into circulation, stimulation of the utilization of depreciation allotments for a designated purpose, involvement of the funds of banks, leasing companies, and other commercial structures in the financing of long-term investment projects.

For the purpose of creating organizational, legal, and economic premises for the accelerated introduction of uncompleted facilities in the economic turnover, the Russian Federation Government adopted Decree No 59 on 3 February 1992 pertaining specifically to that question. It provided that facilities, the construction of which cannot be completed due to lack of financial or material and technical resources, are subject to direct sale to enterprises, organizations, foreign investors, and physical bodies.

Only several dozen incomplete retail trade and public catering facilities, with a high degree of readiness, have been actually sold in 1992-1994; that is those facilities which ensured acquisition of revenue within a short time with comparably low expenditures.

The interagency commission formed by the Government of the Russian Federation, in a decision of 6 April 1994 recommended that the territorial property management organs, which organized the sale of uncompleted facilities, in the absence of a buyer at auctions (sales, competitions) transfer them to legal or physical bodies with postponement of payment for five years on the actual expenditures as of the date of transfer, on the condition that they pledge completion of construction and organization of production within one to two years.

Some 62 facilities, the construction of which was halted due to lack of financing, were sold in the first quarter of 1995.

At the present time the Ministry of Finance of Russia is participating in work involved in preparation of a statute on the sale of uncompleted construction projects, which is subject to adoption by the Government of the Russian Federation.

Building organizations and contractors believe it feasible to amend the law on tax on the property of enterprises No. 2030-1 of 13 December 1991, in order to prompt the ordering organizations and builders to decrease the amount of uncompleted construction; that is to raise the rate of the tax with relation to the cost of uncompleted construction which formed with the disruption of deadlines for the introduction of facilities and production capacities as established in agreements (contracts) pertaining to facilities being constructed at the expense of enterprise funds. I am assuming that this proposal is worthy of attention.

One of the important measures for ensuring investment processes with financial resources and a rise in investment activity under conditions of a market economy is effective utilization of depreciation allotments.

With a significant rise in prices in construction, which began in 1991, the growth rates of depreciation allotments lagged substantially behind. Correspondingly there was a decrease in their share of the financing of capital investments. In 1991 it amounted to 25 percent; in 1992 it was 18 percent; and in 1993 it was around 10 percent.

Structure of Capital Investments by Financing Source on Territory of the Russian Federation, in percent

	First six months of 1994	First six months of 1995
Funds of enterprises and organizations	58.3	62.3
Federal budget funds	15.0	11.5
Amounts available:		
On an uncompensated basis	13.3	10.6
On a compensated basis	1.7	0.6
Funds of the budgets of subjects of the Federation	11.5	11.3

In accordance with the Russian Government Decree No. 1233 of 25 November 1993, a reevaluation of fixed capital of uncompleted construction and equipment at warehouses of enterprises and organizations was conducted as of 1 January 1994 regardless of the form of ownership. As a result the initial replacement value of fixed capital amounted to R1,334 trillion (compared with R69 trillion prior to the reevaluation). With consideration of wear and tear, the replacement value was set at R806 trillion.

A regular reevaluation of fixed capital was carried out as of 1 January 1995 in accordance with the Russian Government Decree No. 967 of 19 August 1994. As a result, with the initial book value of fixed capital as of 1 January 1995 equal to R1,181 trillion, its replacement value after reevaluation came to R5,093 trillion, and without the cost of apartment buildings—R4,167 trillion.

In connection with the realization of indicated decrees of the Russian Government, the share of depreciation allotment as a source for financing capital investment increased to 46 percent in 1994 and in 1995 to 57 percent. According to predictions for 1996, it must come to 58 percent of the total volume of financial resources. In accordance with the federal investment program, in 1995 it is planned to finance capital investments in the amount of R121 trillion through depreciation.

Depreciation allowances, being the property of enterprises, are transferred to the price of products they produce. In that manner the expenditures of enterprises on creation, expansion, and reproduction of fixed production capital are covered by the consumer of the products. The demand made on enterprises to utilize depreciation allotments in strict accordance with their designated purposes is based on that, but this is not legislatively secured. More than that, in accordance with legislation, enterprises can use depreciation allotments as property in monetary form at their discretion.

In accordance with decree No 967, in cases of nondesignated utilization of the amount of depreciation allotments calculated with consideration of the emergency coefficient (which is used in the case of highly technical branches and effective types of machinery and equipment), it is included in the taxable base and taxed in accordance with existing legislation. It appears feasible to apply such an approach to the entire amount of depreciation allotments used by enterprises not for its designated purpose (and not just the part included in emergency depreciation).

On the other hand, enterprises should be granted the right not to compute depreciation allotments proceeding from the concrete situation and predict the amount of funds which are actually needed by them to maintain fixed capital.

At the present time commercial banks have substantive financial-credit resources at their disposal but because of inflation and considerable risks they issue funds for investment projects very unwillingly.

An expansion in the practice of financial leasing is a real possibility for raising their interest in long-term crediting.

In accordance with the Russian president's edict of 17 September 1994, No. 1,929, on development of financial leasing in investment activity, it is defined as a form of entrepreneurial activity aimed at the investment of temporarily free owned or attracted financial funds in property, transferred according to agreement to physical and real bodies for a certain period of time. The holder of owned or borrowed financial funds—the lessor—purchases equipment and leases it to enterprises-lessees who need such equipment, with the option to subsequently purchase it either upon termination of the lease or before.

The attractiveness of using financial resources in leasing is connected with the smaller risk that is involved in using funds for investment because:

the funds are channeled into purchase of an active portion of fixed capital-equipment, the actual need for which is confirmed and utilization is guaranteed by the business plan of the enterprise-lessee;

the enterprise-lessee makes the decision to conclude an agreement with the lessor only in those cases where everything necessary for organization of production exists (production areas, manpower), except for the equipment.

Measures aimed at the development of leasing are determined by the Russian Government Decree No. 633 of 29 June 1995 and pertain to the elaboration of necessary normative-legal enactments concerning this matter.

At the present time, in connection with the preparation of the draft decree of the government of the Russian Federation on additional stimulation of private investments, the Ministry of Finance of the Russian Federation is working out the question concerning issuance of government guarantees to banks financing investment projects.

It is planned that banks will be reimbursed for part of the invested financial resources directed by them into crediting of investment projects (carried out at the expense of owned funds of investors), in cases of disruption of their realization for reasons not depending on the activity of investors. It is planned that a decrease in the risk for banks in connection with the granting of government guarantees to them will promote a drop in the interest rate charged for credit.

*Formation of Working Group for Banking Activities

954E1521A Moscow KOMMERSANT-DAILY in Russian 23 Sep 95 p 6

[Article by KOMMERSANT-DAILY's Financial Department: "Working Group on Banking Activity Matters Established: New Government Directive"]

[FBIS Translated Text] **Published several days ago was Russian Government Directive No 1292-d which pertains to the establishment of a special working group for the "development of drafts of standard-legal acts on matters involving the improvement of banking activity regulation." The group included representatives of a number of economic ministries, commercial banks, the Bank of Russia, the Association of Russian Banks and even the special services.**

The decision to form a special group for the development of documents on the regulation of banking activities is a direct consequence of the crisis which has struck the financial market. According to Pavel Medvedev, one of the new group's members, the group has been established in order to minimize the banking crisis' consequences and, as far as possible, to prevent its recurrence. "The banking crisis could have been foreseen and, moreover, we in the subcommittee foresaw it," Mr. Medvedev stated. "However, it must be taken into account that the State Duma is not meant to react rapidly to situations which arise in the economy and that the Central Bank and the government should deal with the banking crisis. Nevertheless, I welcome our subcommittee's addition to the rapid impact on the economy through participation in the government's working group, although it is still early to draw conclusions of any kind about the new body's effectiveness." Mr. Medvedev also stated that, apparently, laws will be passed in the near future, which regulate the bankruptcy procedure for banks and the procedure for insuring private investors. Evidently, these matters will fall into the working group's field of view as well.

Mikhail Khodorkovskiy, the Chairman of the Management Board of Menatep Bank, shared Mr. Medvedev's opinion, declaring that the group's priority task will be the development and adoption of medium-term measures aimed at increasing the banking system's liquidity. In addition, documents should be drawn up, which make it possible to conduct an overhaul of salvageable banks in order to protect the interests of their investors and clients. Tekhnobank [technology bank] President Garegin Tosunyan also believes that drafts of documents on a mechanism for the refinancing of commercial banks by the Central Bank and of clearing projects will be discussed first of all.

For the time being, however, the government's directive instructs the working group to develop and to submit for approval, within a 2-week period, to Russian Government First Deputy Chairman Anatoliy Chubays, to whom the coordination of the group's activities has been entrusted, a plan of priority measures for 1995's fourth quarter and a program for 1996 for the improvement of the standard-legal base in the area of banking activity regulation.

[Boxed material follows]

Composition of the Working Group To Ensure the Development of Drafts of Standard-Legal Acts on Matters Involving the Improvement of Banking Activity Regulation

Kazmin, A.I. (Russian Federation [RF] Deputy Minister of Finance and head of the group); Artemova, T.K. (RF Central Bank Deputy Chairman and deputy head of the group); Vitryanskiy, V.V. (RF Supreme Court of Arbitration Deputy Chairman); Ignatyev, S.M.

(RF Deputy Minister of Economics); Popov, N.V. (RF State Tax Service Deputy Head); Medvedev, P.A. (RF State Duma Banking Legislation Subcommittee Chairman); Yudushkin, S.M. (RF Deputy Minister of Justice); Yegorov, S.Ye. (President of the Association of Russian Banks); Poletayev, Yu.B. (Chairman of the Vneshtorgbank Rossii [Foreign Trade Bank of Russia); Tosunyan, G.A. (Tekhnobank President and Chairman of the Management Board of the Interbank Financial House); Tsimaylo, A.V. (Vice President of the joint-stock bank Most-bank [bridge bank]); Khodorkovskiy, M.B. (Chairman of the Management Board of AKB Menatep [Joint-Stock Commercial Bank Menatep]); Poryadin, V.A. (Deputy Chief of the Economic Counterintelligence Directorate of the Russian FSB [Federal Security Service]); and Andreyev, V.K. (Chief of the Monetary Circulation Credit Section of the Department of Finance, Budget and Monetary Circulation of the RF Government Apparatus). [End of boxed material]

*Measures To Avoid Future Banking Crisis Proposed

954E1515B Moscow DELOVOY MIR in Russian 22 Sep 95 p 4

[Article by L. Mariyeva: "White Gowns—Uniform of the Orgbank"]

[FBIS Translated Text] **Echo of the Crisis on MBK [Interbank Credit] Market Acquiring the Form of Constructive Proposals**

Executives of the Orgbank Interbank Association—one of the founders and organizers of the interbank credit market—held a press conference at which a retrospective analysis was made of crisis situations on the domestic financial market and constructive proposals were formulated aimed at liquidation of the consequences of the latest, August crisis of nonpayments and their prevention in the future.

From the very start of the crisis of non-payments which had occurred Orgbank took an active part in various measures designed to eliminate it, jointly with the leadership of the Central Bank of the Russian Federation and representatives of Sberbank, Vneshtorgbank, Kredit-Moskva, MIB [International Investment Bank], and Promstroybank, while carrying out instructions of the Association of Russian Banks jointly with the MFD [Interbank Financial House] on the mutual offsetting of non-payments. Orgbank leadership dispatched appeals from T. V. Paramonova, acting chairman of the Central Bank of the Russian Federation, to K. B. Shor, chief of the Main Administration of the Central Bank of the Russian Federation in the city of Moscow, containing proposals on the organization of a system for mutual offsetting of bank debts on the MBK market, as well as a declaration concerning the readiness of Orgbank to participate in the financial restructuring and to support the liquidity of insolvent banks along with other measures designed to improve the situation.

Characterizing the current position of Orgbank, its president Valeriy Gugnin, noted in particular that the recent crisis was not too painful and certainly not destructive for the interbank association, which specializes specifically in the credit sector of the market. We have already become accustomed to crises. The first one, for instance, struck banking institutions back in 1990, when operations were halted for an entire month. The second one followed in 1992 when the Central Bank of the Russian Federation introduced a 20 percent deduction into the reserve fund, and many if not all of the commercial banks had debit balances at that time. In 1993 a crisis was prompted by the demise of the Cash Union, when many debtor banks appeared. It is specifically at that time that Orgbank introduced "white lists"—its own bank reliability rating, which still helps the association to prevent non-repayment of monetary funds. The general banking crisis that followed in 1994, brought about by a drop in the rates on the MBK market, was quite "smooth" and did not cause any major upheavals. The current situation was more complex and it was not so much the small and medium banks that found themselves in a difficult position as the large ones. The fact that the credit market was extremely short term played a damaging role. Money is being borrowed virtually "overnight" (maximum period is two weeks), whereas just two years ago three-month credit was predominant. Therefore it is not surprising that within just two days banks submitted demands for payment to each other, a chain of nonpayments developed, spawning mutual distrust, followed by cessation of operations in that segment of the market.

Orgbank itself, however, Mr. Gunin said, accepted the circumstances calmly. Its specialists managed the situation and the association continues to strictly fulfill contractual obligations to more than 1,000 banks. According to Valeriy Konstantinovich, Orgbank "today does not know what to do with the money inasmuch as it distributes only those funds that it hopes to recover." It is apparently not without a reason that the MBO [Interbank Association] president declared that "conducting a risky credit-monetary policy Orgbank could have long ago joined the list of 10 largest banks."

Andrey Tyurin, head of the department of active operations of Orgbank, noted in that connection that it is specifically the large banks that found themselves caught in the crossfire of excessive press attention. He castigated journalists for lacking an objective approach which is replaced with a search for damaged banks. In the opinion of Mr. Tyurin, it is specifically the mass media that aggravated the position of Pefortovskiy Bank. In order to eliminate the crisis, he believes, what is needed are not sensational investigations, but calm and well thought out current and long-term measures. According to Andrey Vyacheslavovich, for instance, such a preventative measure could be the utilization of one of the modern operational networks on the MBK market, such as, for example, Dealing-2000-Reuter, and widespread utilization of such an operation as determination of profitability under realistic conditions of the times (new technology)—in conversions, securities, credit resources. Orgbank has such possibilities inasmuch, as indicated by its leadership, western technologies for perfection of transactions today do not have to be chased since domestic ones are not only as good but, in a number of regards, superior to them.

Nevertheless in the first week of the crisis activity of MBO with partner banks showed a decrease. At the very peak of mutual nonpayments, however, as indicated by Sergey Zamaleyev, deputy director of the credit-analytical administration of Orgbank, the volume of daily transactions came to around 80 percent of the usual number (500-600 transactions per week—before the crisis). The assets of the banks also showed a decline, which, by the way, does not signal that settlement of accounts with clients is impossible. Orgbank began making greater use of such financial tools as GKO [government short-term bonds], KO [treasury bonds], and futures contracts. A curtailment in the issuance of credits in general is characteristic today of all banks, many of whom are now working with MBK very cautiously—utilizing real estate and other liquid assets for security.

Lev Lipkanskiy, head of the department of passive operations of Orgbank, noted in connection with the topic concerning trust in financial structures that was brought up, that after the loud noise made in the press a massive withdrawal of assets by physical bodies was anticipated with long lines of depositors at all 20 branches of the bank. That did not occur. The rank and file depositor "endured" and at present, according to Mr. Lipkanskiy, there is information indicating an influx of funds into Orgbank, including transfers from other banks.

At present Orgbank continues conducting a policy aimed at elimination of mutual distrust among banks participating in the MBK market and also supports constructive proposals coming from the banking community directed at the government and the Central Bank for the purpose of strengthening bank liquidity.

We shall cite the proposals set forth by MBS Orgbank aimed at elimination of the crisis of nonpayments and prevention of such situations in the future.

elaboration of a real system for refinancing of commercial banks;

organization and conduct of a system of mutual offsetting among banks on the basis of an MBK Orgbank clearing bank;
organization of measures jointly with the Central Bank of the Russian Federation for the financial restructuring of insolvent banks;
reorganization of credit work in the banking system oriented toward increased repayment of credits;
elaboration of conditions, together with the Central Bank of the Russian Federation, for allowing banks to utilize their own reserves and also lowering the level of reserve requirements.

Taking into account the extensive experience of MBO Orgbank (this October that specialized banking establishment will be five years old) it is probably worth heeding its advice. The "white garments" of the "white lists" of reliability will then fit many more commercial banks—unfortunately not those 80 banks whose licenses are about to be revoked by the Central Bank of the Russian Federation, but possibly the 140 which will be receiving a warning from the Bank of Russia.

*Banks Association Chief on Banking Crisis

954E1515A Moscow DELOVOY MIR in Russian 22 Sep 95 p 4

[Article by O. Nogin: "Is it Easy To Be a Banker in Russia?"]

[FBIS Translated Text] **Vyacheslav Zakharov, Vice President of the ARB Answered That Question Negatively**

Even though the government tends to consider the August banking crisis as being over, public interest in it is not waning. Millions of people understood that all that is taking place in the banking sphere of the country in one way or another concerns each one of us. Therefore the traditional questions—who is at fault and what can be done—continue to be heard certainly not because of the old Russian habit of waving fists after a fight. Without an exhaustive analysis of what happened, it is impossible to avoid a repetition.

That was the purpose of a press conference held by Vyacheslav Zakharov, executive vice president of the Association of Russian Banks (ARB).

The well-known scientist and financier stressed that "to us it has been clear for a long time that a credit crisis was inevitable. Despite the warnings by ARB the leadership of the Central Bank raised the reserve requirements and by an arbitrary decision unpaid credits issued under government guarantees were written off the bank accounts. Reserves for the development of the credit market are taxed which is not being done in any country with a market economy! Finally, commercial banks are again paying the highest profits tax: 43 percent and not 35 percent like everyone else.

Participants in the press conference were, naturally, interested in the results produced by the meeting of the president of Russia with heads of the commercial banks. It is known that the head of state made a number of critical remarks to the bankers. Do the heads of the banks and the ARB agree with them?

"We disagree with only one of the positions presented in the president's speech," Vyacheslav Zakharov stated. "He accused large bankers of weak activity in the absorption of small banks. In the opinion of the president, there are too many of them in Russia. We believe that this might apply only to Moscow where 40 percent of the banking establishments of the country are concentrated. In the regions, however, quite on the contrary, there are too few banks for normal development of the economy. The experience of the credit crisis has indicated that the size of the bank and not the volume of its operations is the guarantee of strength and stability. Vostok and Mezhregionbank are big commercial banks. It was specifically they, however, that bore the greatest loses in August. At the same time we know many smaller banks which did not lose their stability even during the worst days of the crisis."

The ARB vice president had a skeptical attitude toward the declarations of a number of important government officials, including Vice Premier Anatoliy Chubays, to the effect that greater investment activity of the banks will result from the crisis.

"The situation, as they say, appears to be quite the contrary," Vyacheslav Zakharov believes. "The crisis has proven that the great majority of the banks lack reserves for investments in production. The example of Chasprombank, which conducted an active investment policy without appropriate consideration of the fact that long-term investments require reliable monetary reserves, constitutes vivid proof of this. I am confident that today the bankers will think a hundred times and recheck everything a thousand times before putting any money in long-term investment projects."

The aspiration of the Central Bank and the government to attract monetary reserves into the GKO [government short-term bonds] is not to the good of the investment policy either. As long as the profitability of these securities is higher than that of investments in production, one cannot hope for an animation in the investment activity of banks.

In the opinion of Vyacheslav Zakharov the August credit crisis played a somewhat different role than the one that was anticipated by government officials. Bankers came to realize the need to unify on the basis of corporate interests. For instance, at the meeting of Moscow bankers there was a lot of talk about honest competition and mutual assistance. A formula according to which banks intend to assist each other in complex situations was also worked out. That shows trust and a demanding attitude.

Another issue also interested the journalists: what is to be done and how in order to make another crisis such as the one in August impossible. The Association of Russian Banks submitted its thoughts on that subject. They are based on reorganization of the credit and monetary system of the country as worked out by leading specialists in that field.

"Meanwhile," Vyacheslav Zakharov said, "we are not seeing any hints that anyone intends listening to our opinion. The law on the Central Bank of the Russian Federation, for instance, has been in effect for four months. It stipulates that the Central Bank must seek the opinion of commercial banks regarding various aspects of its policy, and primarily with regard to such questions as creation of reserves, setting of discount rates, and other fundamental aspects of the work. So far, however, the Central Bank has not sought neither our advice nor our consent. Could such disregard of the opinion of the banking community lead to a new crisis? Time will tell."

*Greater Foreign Role in Bond Market Anticipated

954E1514A Moscow FINANSOVYYE IZVESTIYA in Russian 26 Sep 95 p 3

[Article by Aleksey Grabarov: "Central Bank Cuts Open a Window to Europe for State Bonds"]

[FBIS Translated Text] The chief of the Central Bank securities administration, Andrey Kozlov, announced the Central Bank's intention to be more active in attracting foreign investors to the state securities market. In principle there is nothing new in these plans: Discussions about increasing the quota for nonresidents from the current 10 percent of the volume of issuance to 20 percent have been going on for a long time. But today these plans are beginning to acquire realistic features. In Kozlov's words, trade in Russian securities will be conducted not only in Moscow but also in Paris, London, and Frankfurt-am-Main. To do this it is planned to create an institute of foreign leaders from among the largest investment companies of the world.

These ambitious plans could entail unexpected consequences for the issuer. First of all, short-term instruments are not altogether suitable for extended conservative investments, to which the majority of Western institutions are attracted. Therefore the market might be entered not by investors but by speculators hoping to get rich quick. This is indeed a favorable time for them. Today the income on bonds ranges from 100 to 120 percent annually in rubles. The introduction of a foreign exchange corridor means that approximately the same amount of profit can be obtained in dollars. But the potential foreign-exchange revenues of 100 percent annually for any serious Western investor should at least cause doubts about the issuer's ability to fulfill his obligations. Such a level of profitability of operations, strange as it may seem, could cause most of the investors not to take the shares that are offered to them. One must not forget either that Russian bonds have almost the highest risk coefficient on the world markets.

On the whole the state bond market has always been distinguished by a certain stability. Only sudden crises like last year's "Black Tuesday" or the recent collapse of the interbank credit market had a marked effect on it. Russian banks have never reacted to various domestic and foreign political events (the influence of which on any state debt market is by definition very great). But, judging from everything, the "omission" can be rectified in the near future. Western leaders traditionally are strongly oriented toward politics (suffice it to recall the example of the bond market for the domestic foreign-exchange loan). In other words, the probability of sharp fluctuations in market conditions will increase sharply. Moreover, it will be more difficult for the Central Bank to smooth out these fluctuations. Even today, 20 percent of the overall market volume amounts to about 9 trillion rubles. Obviously, if all foreign leaders were to begin to put out on, the country's main bank would have to exert maximum efforts to create an adequate demand. In this situation, the depth of the drop of quotations could turn out to be quite significant.

Moreover, the stability of the market would be made dependent on factors of a global nature (for example, changes in the American state debt, the dynamics of the exchange rate of world currencies, and interest rates in national banks). Thus the changes planned by the Central Bank of Russia will not increase the stability of the market but, on the contrary, will make it unpredictable and therefore risky.

A couple of words about the prospects for reducing the cost of servicing the state debt. According to the plan of the Central Bank and the Ministry of Finance, the expansion of the participation of foreign dealers in trade in state bonds and federal loan bonds should increase the effective demand for these securities, which means they should lead to a reduction of interest rates. Theoretically this is possible. But in practice Russian banks (which have 80 percent of the market) are not likely to allow income to drop below a certain critical level which is dictated by inflation expectations. Therefore the hope that state bond rates will drop from today's 100 percent annually to 15-20 percent annually (as with foreign exchange bonds of the Ministry of Finance, on whose market foreign dealers dominate) is extremely slim.

There is no doubt that Western investors will have to "develop a taste" for Russian bonds. Without this Russia will never gain access to world resources. But the question arises: Is it really necessary to place state bonds/federal loan bonds on the market first? By international standards, the market volume is still extremely small (only about $10 billion), and by opening the floodgates to Western capital (especially speculative), one could undermine its well-being. In the opinion of experts, it would be more reasonable to begin to place loans that are oriented exclusively toward foreign investors (like the European bonds of the USSR Foreign Economics Bank that are in circulation today). These bonds could be medium- or long-term, have a level of income that is advantageous to the state, etc. Thus the government will solve its problems and at the same time preserve the stability of the largest and most popular market in Russia.

*Finance Ministry on Issue of Government Savings Bonds

954E1508A Moscow KOMMERSANT-DAILY in Russian 22 Sep 95 p 5

[Article by Vadim Arsenyev: "Press Conference Held in the Ministry of Finance: Finance Ministry Designates 'H-Hour' for the Savings Bond"]

[FBIS Translated Text] Deputy Minister of Finance Andrey Kazmin and Director of the Securities Division of the Russian Federation Ministry of Finance Bella Zlatkis yesterday made the official announcement of presentation of the savings bond (OSZ). It was declared that in one week, on 27 September, the Ministry of Finance would determine the victors in the competition for the right to float these securities.

During the course of the press conference, the high-ranking Ministry of Finance officials gave insistent assurances to assembled journalists that the present Russian state can be trusted. In particular, Mrs. Zlatkis stated that the Russian Finance Ministry has paid off up to 70 percent of the volume of legalized USSR debt. In addition, the experience of the state short-term bond market shows that the issuer has not once held up payments on loans, thus categorizing the Finance Ministry as a Class A borrower.

In addition to the reliability of the issuer, potential investors should also be attracted by the high yield announced yesterday for the first OSZ coupon (102.74 percent annual interest). As KOMMERSANT-DAILY has already reported, the OSZ is a 12-month note with a "floating" rate. Coupon income is paid quarterly and equals the most recently declared yield of federal loan bonds (OFZ). For the first coupon, bondholders will receive the promised 102.74 percent on 27 December 1995. In absolute terms, this constitutes about R25,000 [rubles] for the OSZ with face value of R100,000, and R125,000 for the OSZ with face value of R500,000. True, Mrs. Zlatkis noted, the yield of the bonds for private individuals could diminish as a result of the immoderate "appetite of commercial banks" engaged in flotation of these securities. Moreover, at a seminar held Wednesday at the Russia Bank Association, Dmitriy Budakov, deputy director of the securities department of the Central Bank, expressed doubts that the bonds would reach the populace. In Mr. Budakov's opinion, the prospect cannot be ruled out that banks will buy up most of the bonds and use them as security in obtaining interbank credits.

As far as organization of the market for the new securities is concerned, Mrs. Zlatkis stated that plans called for creation of the institution of savings bond market-makers, which would buy up the bonds from the state and sell them to the populace at their own prices. It is not yet known which banks would be included within the market-makers. Applications will no longer be accepted after today, and the results of the competition will be determined on 27 September. Whoever wins the competition, however, the Ministry of Finance will try to reach agreement with each of the underwriters to ensure that all market-makers offer the same OSZ prices. Sberbank of Russia will be the payment agent for the OSZ. It will pay the coupon income and redeem the bond.

Mrs. Zlatkis stated there is great interest in the new bond. Numerous inquiries are being received at the Ministry of Finance regarding the terms of circulation and yield of the OSZ. Without any doubt, the OSZ is entering the market at an auspicious time. The sound state securities are appearing just at the moment when the confidence of private individuals in commercial banks and the financial instruments issued by them is greatly undermined.

*Profitability of Russian Savings Bonds Viewed

954E1498A Moscow IZVESTIYA in Russian
26 Sep 95 p 1

[Article by Ye. Vishnevskaya: "Ministry of Finance Tries Making Ruble More Attractive"]

[FBIS Translated Text] Owners of the new securities will be getting a higher income than owners of freely convertible currency.

At the end of this week commercial banks and other financial institutions, having received the blessing of the Ministry of Finance, will start selling savings bonds, securities with a face value of 100,000 and 500,000 rubles [R], with four coupons allowing the holder of the bond to receive income once each quarter. As declared by representatives of the Ministry of Finance, the first payment will be made as early as on 27 December of this year. After spending the first coupon, bond owners will receive income based on 102.74 percent interest per annum.

It is possible to say that appearance of the new securities on the Russian market signals an end of the period in which foreign currency was triumphant in the Russian space, at least for those citizens of Russia who have become used to acquiring dollars in order to save their ruble incomes. The matter is that the exchange rate of the U.S. dollar in the "corridor" by the end of this year cannot rise above R4,900, which means, having purchased dollars today and selling them in December even at the highest possible price, the citizens will receive a smaller income than they would from the first coupon of the new bonds.

A simple calculation allows one to become convinced that investment of a ruble in a savings bond is more profitable than a ruble spent on the purchase of the U.S. dollar. For R500,000 it will be possible to buy one bond or around $112. On 27 December the money invested in the government security will yield a guaranteed income equal to approximately R125,000. The maximum profit, however, which may be obtained by someone who purchased U.S. currency, will equal to merely R48,800 and then only if the dollar exchange rate reaches the upper limit established for it by the "fluctuation corridor," which cannot be guaranteed by anyone.

The acquisition of new securities is also advantageous for those Russians who prefer the rustle of greenbacks. The ruble income derived from bonds can be converted to dollars, and the foreign currency capital will grow faster than it would in a bank account; a dollar converted to a ruble and spent on a bond, after reverse conversion, will provide a profit of about 60 percent per year.

All of these calculations, however, are correct only if there are no changes on the Russian market; that is if there are no "Black Tuesdays" on the market and the Ministry of Finance continues paying high returns on the coupons.

*Upcoming Reforms in Taxation Sphere Announced

954E1513A Moscow KOMMERSANT-DAILY in Russian 22 Sep 95 p 8

[Unattributed article, with commentaries by Aleksandr Pochinok, deputy chairman of the State Duma of Russia Committee on the Budget, Taxes, Banks, and Finances, and Mikhail Motorin, supervisor of the tax and customs legislation sector of the State Duma apparatus: "New Attraction Devised. The Price of the Ticket Is Being Defined More Precisely"]

[FBIS Translated Text] The adoption in the near future of new measures to fight against the nonpayment of taxes is contemplated. Starting 1 October the norm for reserving resources in a settlement account for urgent needs will be decreased from 30 percent to 20 percent. The reserve will be abolished completely starting 1 January 1996.

Work has begun in the State Duma on proposed amendments to tax legislation. The significant changes could affect the tax on profits, VAT, and income tax. Plans have also been announced to introduce a tax on above-norm increases in the wage level in place of a tax on an above-norm wage. The government, it seems, has decided to discredit itself completely.

The Fight Against Tax Dodgers

A joint briefing was held last Friday by Vladimir Gusev, director of the State Tax Service, and Petr Mostovoy, deputy chairman of the State Property Committee of Russia and general director of the Federal Administration on Insolvency Matters (FUDN).

The following figures were published at the briefing. The tax indebtedness of companies to the state had by 1 September reached 28 trillion rubles; moreover, half of this consists of nonpayments on the part of 46 large Russian companies. Mr. Mostovoy named companies of the oil and gas complex, railroad transport, automobile plants, and metallurgical combines as among the biggest tax dodgers.

The general director of the FUDN reported that eight tough measures would be undertaken in the near future against these companies in accordance with a recent decision of the government Operational Commission for Improving the System of Payments and Calculations.

In particular, discharging directors of companies under state control who are to blame for delays in the payment of taxes is envisioned. The Ministry of Fuel and Energy and the Ministry of Railways, for which the ministers are personally responsible, were instructed to "develop and support the implementation of a complex of measures to reduce indebtedness to the budget by a factor of two by 1 January 1996."

It was noted at the commission meeting that the incontestable recovery of arrears from the hard currency accounts of persons in arrears was virtually not employed. This was explained by the fact that the legislation in force allows such a measure only when the debtor does not have any ruble resources at all, but not in the event that the resources are not sufficient enough to cover the debt.

It should be noted that if the tax organs would only follow the law concerning the fundamentals of the tax system, they would cope with this problem very easily. This law grants them the right to recourse in an incontestable procedure to the income of a taxpayer (even if it is hard currency), and if there is none—to his property. It is unlikely that anyone would succeed in disputing enforcement by the currency inspectorate.

However, the tax organs place the edicts of the president, if not on a higher level, then at least on the same level with laws (such, alas, are the consequences of the legal excesses to which the president contributes in many ways). But last year's regrettably well-known edict No. 1006 (the same one that prohibited more than one settlement account) established that recourse to hard currency was possible only given the absence of ruble resources in accounts for more than 10 days. As a result, taxpayers unceremoniously save their hard currency by sending at least one ruble to the settlement account.

The norm of the president's edict protects the hard currency of companies even more reliably than their personal property—the edict does not contain restrictions on recourse to it.

Also being proposed is recourse to the property of debtor companies (by means of its sequestration and subsequent sale). It should be noted that according to the law concerning the principles of the tax system, this is possible even without additional decisions. To date already about R1 trillion has been realized in this way. It is not entirely clear why such measures have still avoided unprofitable state producers (who are practically without competitors by virtue of the customs policy being conducted).

It is also possible that a procedure will be initiated to declare debtors insolvent because of their tax debts. As was indicated in the press release on the results of the commission meeting, "the indebtedness to the budget of enterprises that have a share of state property should be viewed as a sufficient reason for a bankruptcy procedure with discharge of the director."

True, it is not as easy to do this as it might seem at first glance. The principal debtors have very large property inventories whose value exceeds their debts many times over. Therefore, a more realistic variant is recourse precisely to the property.

The commission also made a decision on the staged reduction of the norm on the reservation of resources for pressing needs.

Today, given the presence of indebtedness for taxes, only 70 percent of the resources that are received for settlement accounts of enterprises are applied to the budget. They are authorized to expend the remaining 30 percent on wages and other immediate needs. Budget losses will amount to R17.5 trillion this year because of this rule.

At the same time, the tax organs complain on the basis of fuel and energy complex inspections of enterprises that the enterprises are using the right to reserves simultaneously with an evasion of taxes. The resources with which they operate for all practical purposes do not end up in their settlement accounts. Even the payment of wages is often conducted from the accounts of the buyers of their products. But the existing reserve of 30 percent does not make it possible to fully take even that part that nonetheless ends up in the settlement account.

Therefore, it is proposed that by 1996 reservation will be abolished and it will be possible to withdraw for the budget all of the resources that are received in a settlement account. Starting on 1 October the reserve norm will be lowered to 20 percent.

What Awaits Us Next Year?

A meeting of the State Duma budget commission was held on the budget for next year, at which amendments to the tax laws proposed by the government were examined. This is the reaction of the deputies to the amendments.

To compensate for the loss of special taxes, the VAT rate is being increased to 21 percent. The deputies are interested in why a decrease in the tax burden is being advertised once again, and they are threatening to block the amendment.

The introduction of a single method of recording the origin of VAT tax obligations—cumulative and dependent not on the receipt of money but on the origin of property rights (which bookkeepers most often call "on shipment")—is approved completely. This is world practice, and does not permit deferments in the payment of taxes. At the same time, doubts are being expressed over whether companies have enough resources for its implementation.

The proposal concerning the exclusion from taxable profits of resources of subsidiary companies received from parent companies was fully approved (on condition that the share of the parent company in the capital of the subsidiary amounts to no less than 50 percent). However, considering that the amendments to the law on VAT contain a similar norm, but with a criterion of 100 percent participation in capital, the deputies proposed to stop at an average value of 70-80 percent.

The government proposal to cancel the number of workers criterion to determine the right to benefits that are granted small enterprises, up to 50 persons in production and up to 15 persons in the nonproduction sphere, did not meet with understanding. The deputies are proposing either to establish a turnover criterion (while not affecting the numbers criterion), or to tie the criterion to the law on small business that went into effect this summer.

The proposal on excluding privileges (cutting the tax rate on profits in half) for companies that give pensioners work was approved. But the cut to 50 percent in the number of invalids necessary to receive them (as was done in the law on the VAT) aroused objections.

The proposal to exempt sums of bank loans from VAT was a surprise: How is it possible to exempt from the tax that which is not taxed even according to the existing laws (like any loans)? The transition to the reimbursement of VAT for fixed capital immediately after it is put into operation, in the opinion of the deputies, has to be conducted gradually. Otherwise, a lot could be missing from the budget at the beginning of the year.

As usual, the proposal advanced to impose an income tax on bank deposit interest (at a rate of 15 percent) and the proposal to declare all loans material assistance (taxable) aroused objections.

According to Aleksandr Pochinok's figurative expression, the Ministry of Finance "got off course" in this regard. The commission came to an agreement with the Ministry of Finance that the taxation mechanism should be turned on only in the event that the interest being paid exceeds the Central Bank rate. As for loans, their taxation, in the opinion of the deputies, is possible only in the event that they are issued under unusual conditions. If they are issued under conventional conditions with payment of the usual interest, then they cannot be taxed. True, the mechanism for separating "unusual" loans from "conventional" loans requires elaboration.

The Ministry of Finance once again decided to toughen the dual taxation of income from the sale of property (the tax is paid the first time on the receipt of the money for which it is bought). The untaxable limit was supposed to be reduced from 5,000 to 1,000 times the minimum wage for real estate, and from the sale of the remaining property—from 1,000 to 100 times the minimum wage.

The deputies demanded a specific interpretation of "remaining" property and retention of the former limits. A restriction, of course, is possible: In the sale of real estate a privilege operates only if the real estate was owned for not less than five years. It should be noted that any taxation of the receipts from the sale of property is in general absurd. If it is necessary to compel real estate dealers to pay, then the tax organs should simply recover the tax in court, by proving that the sale was conducted within the scope of entrepreneurial activity. If the tax organs are unable to do this (or do not want to do this), this is no reason to force everyone to pay for a change of housing twice.

An Exotic Tax Can Be Changed to a Super-Exotic Tax

Abolition of the barbarous tax established by law on above-norm wages does not give peace to many (the budget will be deprived of R25-27 million). The agro-industrial complex is demanding that it be retained, and that the receipts be directed toward its support. The Ministry of Labor thinks that it can equalize everybody with this tax (but it would seem that it should be concerned about increasing the incomes of workers).

But the Ministry of Economics proposed instead to introduce a new tax that provides for taxation of the increase in the average wage. It is imposed if the average wage exceeds the average in Russia and grows faster than inflation. At the same time it is not even called a tax, but "sanctions." Although sanctions can be collected for the violation of any kind of prohibition, no one has the right to prohibit an owner from disposing of his property (money) at his own discretion.

The deputies discussed this proposal with the Ministry of Finance and decided that if, instead of the average wage in Russia, 20 minimum wages are taken, and the norm of the wage increment is established at four times the minimum, then this is possible (of course, on condition that a tax is called a tax). The rate should amount to from 50 percent to 100 percent of the above-norm increment.

Taking into account the fact that "pre-perestroyka" prices correspond to today's prices in a ratio of approximately 1 to 10,000, the state, taxing above-norm wages with sums higher than six times the minimum wage (R330,000), assumes that wages of R33 are more than enough for living. Well, now R110 is considered the top need of workers—a wage that was ridiculed at one time.

If this tax is introduced, the Russian authorities will surpass themselves in absurdity in the decisions they make. One of the main reasons for the negative attitude toward investing in the Russian economy is the exotic nature and low acceptability of the tax system for those who have already learned how to make money. They are even ready to give up a big part of their profits to the state, but on condition that their work is not interfered with. Meanwhile, it is hardly possible to achieve anything while keeping workers on starvation rations.

Therefore, wages (especially since collections for the nonbudget funds will not decrease), as before, will be concealed everywhere (at the same time, profits and workers' incomes as well). The state loses far more than it gains from this.

Under conditions of a pre-election campaign, it seems unlikely that any party will overlook a proposal on the introduction of a new tax. What attitude toward itself can be expected from a government that hinders companies from producing, hinders workers from earning, and hinders the economy from developing?

[begin boxed item]

Commentary

Commentary by Aleksandr Pochinok, chairman of the State Duma of Russia Committee on the Budget, Taxes, Banks, and Finances

On measures to increase the collectability of taxes:

My attitude is only positive. Enterprises must pay taxes. If they cannot pay, the state should sit down with them at the negotiating table and look into what is going on. It is possible, for example, to increase the state's share of ownership, to increase the state's shares of stock, or to transfer rights. In any case, debt to the state must be paid off. But if the state really needs some industrial entity, in that case it can issue a subsidy from the budget and not be ashamed of doing so. All tax deferments should be self-evident. These are very tough but very proper measures. They should not lead to the shutdown of an enterprise, but the interests of the state must be observed.

After all, it is no secret that many of those who do not pay taxes now take the position "I am important, I am great, I can do anything and the state will forgive me." It is impossible to operate as before, when only the state gave out money. It is necessary not just to take but also to repay. This, undoubtedly, is a method of pressure on workers. But after all, the situation frequently develops when an enterprise does not pay wages for months; however, the resources circulate through various offshore zones and settle in foreign banks.

It is necessary here to distinguish situations where a branch has fallen objectively into a difficult position and a situation where an enterprise simply takes advantage of an existing procedure. The introduction of one norm of reservation that is the same for everyone is a signal to not pay anything into the budget.

On regulating wages:

With respect to the introduction of a principally new tax that regulates wages, we had a very difficult discussion on this question with the Ministry of Finance. I am glad that it has started to turn into the necessary channel. In the initial variant it was proposed to introduce a tax of the Abalkin type. If wages at your enterprise are increasing faster than the increase in the prices of consumer goods, or if the increases in resources for wages amounts to 0.8-1 percent, then it is necessary to pay R1 for a R1 increase, if 1 to 1.5 percent, then R2 per R1, and if above 1.5 percent—R3 for R1.

Such a method has shortcomings. First: The result is a paradox, we reject one tax, which we have learned to calculate and collect, and we are collecting and introducing another one that is completely new. Second: We rejected a tax to increase the wage fund on the principal consideration that this kind of tax is not necessary in an economic system, and that it does not in any way stimulate growth. But now we are introducing a similar tax. Third—it is a fact that it is very difficult to calculate it. It is necessary continuously to follow price increases for consumer goods and the average wage throughout the country, and to count it percent by percent. At the same time there is a need for very detailed instructions on computing the tax. Also, expenditures from the budget to introduce this tax are very big.

The Ministry of Economics (the author of the proposal) claims that this tax could eliminate the difference in wages, but it will in no way be able to do this. To make the level of wages between enterprises even—yes. But wages at the same enterprise are not regulated. Moreover, the tax puts those enterprises that are really increasing the volume of production in an idiotic position. With an increase in the volume of production, wages will increase accordingly, but then the total tax is also increased. Here we observe a situation where the tax is an incentive against any increase.

A very tough scale is employed in calculating the tax, and it turns out that wages should increase more slowly than the increase in prices for consumer goods. These, of course, are the good intentions of the Ministry of Economics, but they are not applicable to the conditions of life in Russia, where the living standard of the people is falling inexorably. Attempting to lower the living standard still further is a very unsuitable approach.

There is also the fact that the tax is called an economic sanction. What can be introduced now instead of sanction taxes? This is a bad example for the subjects of the federation. It is impossible to introduce a pseudo-analogy in the form of various sanctions; otherwise, what will we transform the country into? The Ministry of Finance has approached the examination of this proposal quite constructively and is correcting the draft law. The idea of the new proposals is this: The prohibition is being introduced with a more civilized method—the tax begins to operate above the level of 20 minimum wages plus rayon factors (for example, for rayons of the North). This is already a more acceptable draft law, and we have accepted it for review. [end boxed item]

[begin boxed item]

Commentary

Mikhail Motorin, Supervisor of the Tax and Customs Legislation Apparatus of the State Duma, Comments on the Situation Regarding Increasing the Collectability of Taxes:

This will not lead to the receipt of additional tax revenues, because enterprises simply do not have the money to pay these taxes. This will create additional tension, because the enterprises that now have budget debts and, accordingly, are delaying the payment of wages, will stop paying them entirely.

The kind of situation that will result is one where all the resources of enterprises will be used only to cover tax indebtedness, and wages will be paid only after the indebtedness is covered. But the director of an enterprise will have an excellent excuse (abolish the reservation of resources for wages). It is very difficult to imagine how an enterprise will be able to pay any wages at all under these conditions. Apparently, only at the price of incredible effort and subterfuge, which in turn will be accompanied by a whole train of financial disturbances (including tax evasion in other areas).

Replacing the management of enterprises will not have any result from a practical standpoint: It is unlikely that a new manager will be able to do anything.

In this context it is also necessary to consider that the government is simultaneously contemplating the introduction of a record of sale on shipment. This scheme will worsen the position of an enterprise even further. These two innovations in the existing economic situation will simply result in a social explosion. And it is a dead certainty that the budget will not reap the desired effect. [end boxed item]

Oil Company General Director Arrested

964E0005A Moscow KOMMERSANT-DAILY in Russian 26 Sep 95 p 14

[Article by Leonid Berres and Konstantin Levin: "The Procuracy Could Not Shield Mobil Oil's Partner: Balcar Trading Head Arrested"]

[FBIS Translated Text] Peter Yanchev, general director of the OOO [limited liability company] Balcar Trading, and the company's chief accountant, Valentina Asmanova, will today be charged with embezzling about $1 million (at least this is what the deputy general procurator of Russia, Oleg Gaydanov, promised). KOMMERSANT has conducted its own investigation of the situation surrounding Balcar Trading. It turned out that this company found itself at the center of clashes between the most disparate interests in Russia: from the simple Gaydanov-Ilyushenko drama to a large-scale confrontation between Chernomyrdin and the Korzhakov-Soskovets tandem.

Chronicle of Events

Balcar Trading's General Director Petr Yanchev was arrested by the Moscow and Moscow Oblast UFSB [Federal Security Service administration] in his home early in the morning on 19 September. On that day special service representatives seized documents in Balcar's office in Balashikha. By the way, according to Balcar Trading personnel, they now show up there regularly looking for documents. Petr Yanchev was placed in the Lefortovo SIZO [preliminary detention facility].

Three days later, Deputy General Procurator of Russia Oleg Gaydanov extended the authorization for Balcar Trading general director's detention. At the same time, the company's chief accountant, Valentine Asmanova, was also detained. On Sunday Oleg Gaydanov in an interview on the "Itogi" program said that on 26 September Yanchev and Asmanova will probably be charged with embezzling $1 million. Gaydanov did not elaborate on the details of the case, but did indicate that it involved certain oil deals.

We should mention at the outset the story of jeeps shipped by Balcar Trading to Krasnoyarsk for General Procurator Ilyushenko's relatives. Balcar Trading still cannot offer a reasonable explanation regarding the jeeps. At least for now, the position of the Balcar Trading management is this: We sold the jeeps to a certain Krasnoyarsk company, not a private individual, and what price we sold them for is "our own business." This is a very weak position; however, FSB officers acknowledge that from the legal standpoint there were no violations in the deal, and the relatives of Ilyushenko who figure in this incident are sufficiently distant, so this cannot present a threat of charges of corruption against the general procurator.

What the Exporter May Be Charged With: First Scenario

Balcar Trading's staff at this point does not know precisely what their boss is being charged with. They only guess that the charges have something to do with an incident that involved their company in May of last year. In May 1994 Balcar Trading signed several contracts with foreign partners to deliver $138 million worth of oil in exchange for deliveries of boiler oil to Kamchatka. The Kamchatka UFSB decided that customs had processed the shipment's entry documents incorrectly, and opened a criminal case on fraudulent customs declarations. Yanchev was summoned several times to the Moscow and Moscow Oblast UFSB for questioning. According to him, special services officers mainly inquired about what he had done with the foreign currency from the oil deal.

One of the indications of a connection between that incident and the current arrest is that in both instances Balcar Trading is being investigated by the FSB.

Second Scenario

The second scenario regarding Yanchev's transgression was suggested on last Sunday's "Itogi." It is a general scheme for exposing oil barons: Oil is being purchased at low domestic prices and sold abroad at high world prices. The difference is pocketed by the oil exporter and put to work in the West. According to one version, Petr Yanchev, having set up another Balcar Trading in Switzerland last year, sold exported oil to himself. And sold it at the export discount of $3.5 a barrel, or more than $25 per tonne of oil. In the end, Balcar Trading sold oil to Western consumers at a $1-a-barrel discount, common in world practice. Thus, Yanchev, according to "Itogi's" version, pocketed an additional $14-15 from each tonne of oil.

Balcar Trading's management refutes these accusations this way. First, all the largest oil exporters have set up subsidiaries in the West. This is necessitated, however, first and foremost by the need to obtain only one export license for oil instead of several for different consumers of the oil. Second, although it is theoretically possible to give discounts to themselves by using subsidiaries, in practice this does not make any sense. The reason is that last year Balcar mainly exported oil for federal government needs (4 million tonnes). In keeping with the rules in effect at the time, the company was to transfer about $45 per tonne of oil to a Ministry of Finance special account, and share evenly with the Ministry of Finance any additional profit earned from selling the oil above the estimated price. The finance agency instituted very strict control over accounting procedures, and any uncovered violations, or even a decline in the profitability of the oil exported for state needs, would have resulted in the company being cut off from the export oil pipeline. Therefore, it would have been practically impossible to sell the oil at a price one-third lower than the world price: How would Balcar then pay the budget, keeping in mind that the domestic price plus transportation expenses by the end of the year had reached $65-70 per tonne, while the average world price was slightly more than $100?

Third Scenario

This is the third potential outline of the charges that will be brought against Yanchev. There are two more ways to conceal profits from the state in the export business: the producer artificially understates the domestic sale price (for which he has to be bribed), or the buyer pays the producer with goods at overstated prices, instead of with money. The former option is improbable, since producer prices are tracked by the Ministry of Fuel and Power Generation. It is known that last year oil producers did practice the latter type of deal, but from the legal standpoint it is practically impossible to prove their criminal content. And anyway, according to a Balcar representative's statement, the company practically never engaged in such operations. Thus, the attempts to find the embezzled million in Swiss Balcar accounts is only a cover for other goals.

The Drama's True Causes: Corruption or Oil?

It is obvious that the explanation of purely criminal content in Yanchev's case does not hold water: He was not detained for personal transgressions. The next explanation of this whole saga is this: Certain forces have been working to bring down Mr. Ilyushenko. It is known, however, that until recently Ilyushenko had been the perfect man for the job from the standpoint of politicians possessing any real power. Instructions from "bosses" (the "Puppets" affair and others) were carried out by Mr. Ilyushenko clumsily but zealously— and this was all that was required of him. Also, this same clumsiness indicated that Ilyushenko had no political future, which means that he could not have any serious political opponents.

As a rule, corruption scandals are initiated with the goal of reaping political dividends. However, Aleksey Ilyushenko is hardly a suitable figure for a show trial—charges of corruption against a general procuracy official of this rank will backfire. In the Balcar Trading case, this "backfiring" could be immeasurably great because too many serious interests come to clash over this company. For instance, the situation is made even more tricky by the fact that Deputy General Procurator Oleg Gaydanov clearly started his own game in this matter, since he permitted himself to say publicly that he and Ilyushenko diverge "on conceptual matters."

Oil First, Politics Later

The version that the Balcar Trading case was organized by the company's rivals, who thought that this company had "risen" too fast, looks much more convincing.

The heads of several oil companies and the Union of Russian Oil Exporters, when queried by KOMMERSANT, refused to comment in any way on Yanchev's detention. As to general views on Balcar Trading's activities, two positions may be identified: that of large oil companies, and that of trading companies.

With the repeal of the special exporters institute, traders who possessed this status became the oil industry's competitors for access to export pipelines, since their main business is delivering their own oil (purchased from producers) for the needs of the state, which gets priority in oil transportation schedules. Therefore, generally speaking, oil producers see the current situation as a consequence of the fact that "the undertaking was entrusted to nonprofessionals." Moreover, at one such company we were told that Balcar should have been looked into as long as several years ago, when a totally unknown company was suddenly granted special exporter status. Thus, what we have is a large group of influential structures that are in principle unhappy with the existence on the market of companies such as Balcar. A subject of particularly intense envy is the "oil for loans" deal, which would enable Russia to obtain more than $1 billion in untied loans in exchange for Balcar delivering more than 30 million tonnes of oil over the next five years. At the same time, oil exporters believe that in their relations with the American company Mobil, which guaranteed this deal, their colleagues overstepped certain boundaries a private company can afford.

The Main Version: Big Oil and Big Politics

Nevertheless, the version of rivals' intrigues looks somewhat primitive, because the FSB is the ultimate tool of politicians, not oil traders.

The causes of the scandal around Balcar Trading are most likely completely political. At issue are disagreements between different groups within the Russian political elite. Two of the largest among them are quite amorphous and are associated with the figure of Chernomyrdin on one side, and the Korzhakov-Soskovets tandem on the other.

In many respects, the common area in relations between them was the MFER [Ministry of Foreign Economic Relations]. The famous Mobil-Balcar deal was made possible by Minister Davydov. By the way, for a while Davydov maintained friendly relations with Soskovets, although his ties to Chernomyrdin had always been more solid.

Within the framework of the "great power confrontation," the scandal around Balcar Trading may be seen as an indirect strike at Chernomyrdin's group—indirect, because the actual direct blow hits the MFER and Davydov personally.

It should be pointed out in this context that by now the confrontation has lost its intensity: The situation was alleviated somewhat by the recent creation of the AO [joint-stock company] Rosmetall, with which Soskovets' name is linked. However, a month and a half ago, when a campaign against Ilyushenko began in the press and the name of Balcar Trading was mentioned, this "great confrontation" was at its peak.

In this case the Balcar Trading scandal falls into the same category as the recent arrest of Deputy Minister of Foreign Economic Relations Dogayev. Such a game can be quite unpredictable, though: Such diverse interests clashed on Balcar Trading that the scandal may produce different consequences even for its initiators. And also, in the matter of "confrontation," the MFER affair will not be the end of it: After one exposure the slighted party will respond with another exposure. Thus, we can expect new exposures: Dogayev— Balcar Trading— who will be next?...

Commentary

Friedrich Durrenmatt once made this black joke: If you put any man who has reached the age of 33 in jail for about 10 years without giving him a hint as to what his crime is, deep in his heart he will know why he is there. The Swiss writer's observation can be applied in full measure to Russian businessmen.

Arrested exactly a week ago, Balcar Trading's General Director Petr Yanchev is a very prominent figure in the Russian oil business. With the advent of Mikhail Barsukov to the post of FSB chief, arrests in the top echelons of Russians active in foreign economic relations is no longer news. First, Dogayev, recently appointed deputy minister of foreign economic relations, is arrested on a quite innocent pretext—permitting exports of copper scrap two weeks before the date the government issued official permission—and charged with abetting smuggling. Now it is Yanchev's turn. The connection between the two arrests invites itself, if for no other reason than that the Balcar Trading company is famous for winning tenders for the right to export oil at both the regional and federal level. The MFER did have a say in both cases, and in the ministry Dogayev not only supervised exports for the needs of the state but also was member of the MFER tender committee where federal auctions were held.

The Dogayev and Yanchev cases may have another thing in common. It looks very much like the formal pretexts for their arrests (copper scrap exports in the former, and violations in carrying out a barter—oil for petroleum products for Kamchatka enterprises—in the latter) are far removed from the real motives. A clear political trail is present.

Yanchev's arrest may be seen in two political incarnations. On the surface—the fight for the top chair at the general procuracy, which sharply exacerbated after the president expressed no confidence in his recent favorite, Aleksey Ilyushenko, under whose wing first deputy Vildan Uzbekov provided patronage for his son-in- law Yanchev. One can detect an even more distant target in this arrest, however.

It was Balcar Trading, which, propped up by its collaboration with the famous American oil company Mobil, acted as the top guy in two loan projects. One involved delivering 8 million tonnes of oil over the period of two years, in exchange for which the Swiss bank Indosuez, on Mobil's guarantee, would open a $150 million credit line to a Krasnoyarsk combine plant. The second project, following the same blueprint as the first, nevertheless sets a precedent. Within the framework of this project, Balcar Trading was to sell Mobil 25 million tonnes of oil over a period of five years, guaranteeing with its proceeds (after paying off Russian producers and transportation services) the repayment of an oil bond issue floated in the West by the Japanese financial corporation Nomura

International. The Russian Government gets an untied loan of $1 billion. Nomura International's representative was expected in Moscow yesterday, to discuss the financial side of the issue and the possibility of obtaining government guarantees for it. It is abundantly clear, however, that Yanchev's arrest will jeopardize the deal's implementation. At least, there are unofficial reports that both Mobil and Nomura International are already considering backing out of the project.

Less successful rivals could be using the general procuracy to get even with Balcar Trading. However, a completely different game could be underway in parallel. The Ministry of Economics previously objected to the "oil for $1 billion loan" project, but it was approved by Oleg Soskovets and Viktor Chernomyrdin. If the deal now disintegrates under the pretext of financial fraud on the part of one of its main operators, harm will be done not only to Balcar Trading. Harm will be done to top officials of the Russian Government and the Our Home Is Russia movement. In this connection, it cannot be ruled out that the timing of Petr Yanchev's arrest was chosen with the unfolding election campaign in mind.

[Signed] KOMMERSANT Economic Policy Department

*Arrested Oil Trader's Official Ties Detailed

954E1497A Moscow IZVESTIYA in Russian
26 Sep 95 p 2

[Article by O. Volmatova: "Arrest of Head of Balkar Trading Might Affect Chessmen on the Political Chessboard"]

[FBIS Translated Text] On Friday, 22 September, agents of the Federal Security Service arrested Petr Yanchev, general director of the joint Russian-British Balkar Trading Enterprise. The head of one of the largest companies in Russia engaged in the export of oil is to be charged on Friday. Nevertheless it is already possible to say with a great degree of certainty that regardless of the way in which the charges are formulated, the case will involve more than just a couple of jeeps or several tens of thousands of tonnes of oil sold to relatives and partners of the heads of Balkar too cheaply. The very fact of the detention of Mr. Yanchev, which appeared absolutely inconceivable not so long ago, indicates that the Balkar Trading case will involve not just company personnel but their influential friends in various power structures of the government as well.

The Balashikha-Lada firm based in Balashikha, south of Moscow, created for the servicing and sales of motor vehicles, was the progenitor of Balkar Trading joint venture. In accordance with the agreement regarding creation and activity of the joint venture dated 2 July 1992, the Viscount International Trading, Ltd., which is a legal body under British law, was the foreign participant in that venture. The joint venture carried out the first transaction with oil four years ago, after which, within a short period of time, the oil business became the principal form of activity for the venture.

According to certain specialists, including those in the MVES [Ministry of Foreign Economic Relations], Balkar Trading can be regarded as one of the most rapidly developing commercial oil companies in Russia. According to the volume of trading operations carried out by the company during 1993-1994, the indexes of the joint venture are readily comparable with the indices of leading Russian oil associations—even though the infrastructure of the latter was created and financed over decades. Thus in 1994 Balkar sold 10 million tonnes of oil in the far abroad, of which around 6 million tonnes were within the framework of deliveries for state needs. In addition to specifically trading operations, the joint venture also showed concern to ensure access to sources of the goods—in this case, oil. It is known that Balkar owned a significant package of shares of the Noyabrskneftegaz Association (last year it extracted 22.7 million tonnes of oil—the seventh largest index in the country), practically the entire export of which over the past two years went through the channels of this joint venture. In the opinion of specialists of the Ministry of Fuel and Power Engineering, no other trading company in the country managed to establish such close ties with large oil extracting structures.

The list of commercial successes of the Balashikha company would be incomplete without a mention of the multilateral transaction based on the scheme "oil in exchange for credit," which made so much noise and resulted in so many arguments and criticism at the beginning of 1995. In January of that year Prime Minister Viktor Chernomyrdin signed a government directive in accordance with which Balkar obtained the right to deliver 8 million tonnes of oil over two years to the American Mobil Company. Mobil, in turn, pledged to attract credit amounting to $150 million through international financial institutions (in part, through the Indosuez Bank). The Balkar Trading hour of triumph, however, was still on 25 April 1995 when Viktor Chernomyrdin signed Decree No. 419 taking the credit-oil transaction to a new qualitative level. In accordance with the agreement with Mobil, Balkar was to have delivered 25 million tonnes of oil to the Americans over five years. Mobil intended to organize the sale of securities on world markets jointly with the Japanese Nomura International financial company on the basis of these deliveries. Funds received as a result of that emission (from $1 billion to $2 billion) were promised to the Russian Government as credit at 12 percent interest a year. The intention was to use that money to pay Russia's foreign debt.

Balkar, however, did not intend to stop there. Company executives were conducting negotiations that were not made public involving no less than the repayment of debts owed Russia by a number of countries on the African continent. It is possible to judge what levers were to have been used to obtain repayment of the debts if by nothing else, by the letter from Petr Yanchev to Oleg Davydov, the minister of foreign economic ties, a copy of which is before us (for the sake of fairness it is necessary to note that the head of MVES chose to distance himself from Balkar's preferences).

At least two influential forces were instrumental in the rapid transformation of the company delivering Zhiguli motor vehicles and spare parts for them into the largest operator on the oil and petroleum products market. The tracks left by the first one of them, those of the General Procurator's Office, have been documented in detail by the mass media and present no further interest. The reasons for that support are also sufficiently evident along with the methods used to provide it along with the probable consequences in the form of personnel changes in the leadership of the General Procurator's Office. The second "whale" on which Balkar Trading was positioned is the Ministry of Foreign Economic Relations. Documents connected with the activity of Balkar make most frequent and systematic mention of the name of Andrey Dogayev—formerly a deputy minister and now an inhabitant of the Lefortovo Prison. A curious coincidence: at about the time when FSB agents were detaining Petr Yanchev, Dogayev was not permitted to change the interdiction measure. So far the charge against the MVES official involves only non-ferrous metals, but the camp of his defenders has indicated that "in the near future we will probably find out exactly what our client is in prison for." It should be noted that A. Dogayev is clearly not the only Balkar supporter at the MVES. After his arrest it was possible to note a certain amount of lobbying of the interests of that company by the ministry.

On the other hand the successes of Balkar on the market were based not only on unlawful support but on its dynamic and practical work with clients as well. In that sense support by the MVES representative appears to be quite justified; with all of the corruption of the system it is hardly proper to see the criminal in everything without exception. That postulate appears unusually important since the link with Balkar Trading involves even more important names—Ilyushenko along with Uzbekov and Dogayev. According to certain information Oleg Soskovets, the first vice premier, took an active part in the promotion of the Mobil deal, while the contract itself, as already mentioned, received the approval of Viktor Chernomyrdin.

NEFT I KAPITAL, which covers subjects dealing with oil, does not have either data or any information even on rumors regarding personal interest of the two indicated leaders in Balkar and their association with such large energy source deals appears to be quite legitimate from the official viewpoint, but politics, as we know, is a complicated matter, the elections are drawing closer, and how far the shock wave generated by the explosion produced by Balkar will reach is anyone's guess. The only thing that may be assumed with any degree of certainty is that the explosion will be guided. In any case, it is clear that it is not a couple of jeeps that are the real reason behind development of the "Yanchev case." By the way, according to a source in the law enforcement organs, instructions regarding this case "came from Sochi."

The possible political repercussions of this case can so far only be predicted, whereas the consequences for the oil market appear to be more or less clear. Balkar Trading, if it survives as a company, will undoubtedly lose its position on the oil market. Those producers who are eyeing the future with Balkar as the main exporter of their products should apparently think about changing partners.

*Merits, Demerits of Proposed Russian Land Code

954E1507A Moscow FINANSOVYYE IZVESTIYA in Russian 26 Sep 95 p 5

[Article by Professor Vasiliy Uzun, doctor of economic sciences: "At the Bend Called the Land Code the Farmers Could Be Carried Onto the Shoulder"]

[FBIS Translated Text] The new Land Code could at a stroke wipe out all that has been achieved in the five years of reforms in the countryside. Instead of private farms, it is proposed to create large landed estates.

The Land Code of the Russian Federation given its first reading by the State Duma has already been called the land code of the builder of communism. Although there are telling grounds for this—the actual prohibition on private ownership of the land and a ban on the buying and selling of it and mortgage lending—I cannot agree with this. Only at first glance is the new code a turn to the left, to socialism and communism. On a more in-depth analysis it turns out that this is an abrupt turn to the right—to large capitalist agricultural enterprises. So sharp a turn, moreover, that there is a danger of going into a skid at the curve.

Noncapitalist Path

The basis of socialist agriculture was the state's exclusive ownership of the land. This unshakable principle, which operated throughout the years of Soviet power, served as a natural basis for the confiscation of the product produced by the peasants into the granary of the state for, according to K. Marx, the owner of the means of production disposes of the finished product also.

Agrarian reform in Russia began with the adoption in December 1990 of constitutional amendments and laws on the transfer of the land and assets from public ownership to the ownership of the citizens who were members of these enterprises.

This was an act of good will: The city was repaying its debts to the countryside. The chosen path provided for the socially just division of property. And, finally, by these decisions the Russian countryside was taking the path of noncapitalist development since the land and other means of production were being acquired by those who work in the countryside. They could create family and collective enterprises.

This path corresponded to world experience. In the developed countries agriculture remains to this day noncapitalist, and wage labor is employed on a small scale. In Italy, for example, there are two wage workers per 98 farmers and their families. In other countries the number of hired workmen amounts to 10-15 percent. The highest level is in Britain and the United States: one hired workman for every two farmers and their families.

The past five years of land reform in Russia have shown that approximately 5 percent of the employees of agricultural enterprises have availed themselves of the opportunity to take their land allotment and create a peasant farm. The rest have preferred to remain in socialist collective agricultural enterprises.

But under the conditions of the market these enterprises are uncompetitive. Their share of the gross production of the agricultural product is falling rapidly. Two parallel phenomena may be observed under these conditions:

farms with weak managers and specialists are gradually caving in and being pulled apart for the farmsteads of their members;

farms with strong managers are gradually assuming a capitalist character, when a small group of people takes possession in this way or the other of a substantial part of the capital of the enterprise and runs it as a private enterprise.

The land legislation in force currently is not conducive to the capitalist path of development in the countryside. In order on a legitimate basis to acquire the right to manage an enterprise, it is necessary either to buy up the land portions and property shares of many hundreds of members of the enterprise or to conclude with each of them a lease, pay the rent, and assume full responsibility for the enterprise's liabilities, persuading the bulk of the investors to give up their vote in management. The enterprises have no money for the redemption of property shares or, even less, land portions, and for this reason the process of the redistribution of property will drag on for decades.

It is even more difficult to sell or mortgage a plot of land that is commonly owned. For this it is necessary to obtain the consent of all the property owners, which is incredibly hard.

Code of the Builders of Capitalism

The draft new Land Code no longer contains the concept of collective-shared ownership of the land. Only state and private ownership remain.

The land of the kolkhozes, sovkhozes, and other agricultural enterprises is transferred to their ownership as legal entities. No land portions. In the sixth year, it is proposed canceling the land-portion certificates issued after so much difficulty in the fifth year of the reform.

Thus 26,000 landed estates will be formed. They will be in the ownership of legal entities (the agricultural enterprises operating currently), whose members will be those same former owners of the land portions. The code contains everything necessary for preserving the landed estates indivisible.

What will happen in time? The code specifies a precise mechanism of the concentration of land ownership. It amounts to the following. Upon departure from the farm, the participant shall be due compensation for the value of his land share, but provided that he has worked for 10 years since the time the farm was converted (Article 101). It is perfectly obvious that retirees could not work on the farm and would not receive compensation. Nor would employees of the social sphere work on the farm, and they would not receive compensation. All who retired before the year 2003, left the farm before this date, died, and so forth would receive no compensation either.

Thus over the next decade 10-20 percent of the present owners of land portions would retain the land shares. Considering that there are today on average 500-600 owners of portions per farm, there would remain, thanks to the natural selection envisaged in the code, 50-120 persons. Many of them would in these years themselves sell their land shares. The code authorizes this, affording the farms an opportunity to determine the procedure of the internal circulation of the shares in their charters. Thus the actual number of owners could in the very near future be reduced even further. Instances of all the land of a farm belonging to one or several persons are entirely probable.

The mechanism of disposal of the land property of the agricultural enterprises is very carefully drawn in the code also (Article 102). Enterprises may lease the land to all agricultural producers. Half of the land may be leased with no questions asked, for the second half permission from government officials needs to be sought. Lease relationships will finally acquire a firm foundation. When a kolkhoz or sovkhoz leased state land, this was a nonsense, now the agricultural enterprises will lease their own land, to their own employees included. The employee could hardly obtain a plot on account of his land portion, too many conditions need to be met for this, but there are no obstacles to leasing.

The agricultural enterprise is permitted to lease land even to horticulturists, truck gardeners, and dacha owners, having coordinated this matter with the local authorities.

Agricultural land may even be leased with the permission of the oblast authorities to the citizens or legal entities for urban development or other nonagricultural needs.

What kind of fool, you will say, would build on leased land? Here lies the whole secret—the code does not limit the term of the lease! For this reason the lease could very well substitute here for the sale of land. All the articles banning the sale and mortgaging of agricultural land in the code are a sop to public opinion.

The next possibility is the contribution of land to the authorized capital of other organizations. True, there are two restrictions: the first—no more than half one's land may be contributed; the second—the partners must make a contribution which is not less in terms of value than the value of the contributed land.

It is perfectly obvious that the first restriction is easily overcome: When a kolkhoz contributes 50 percent of its land, it retains ownership of the rest. The next time it could once again contribute no more than 50 percent, but of the rest.

It is even simpler to overcome the second restriction, since the contributions are valued by arrangement of the parties.

Thus contribution to authorized capital also may be used successfully in place of the sale and mortgaging of plots of land. The same could happen when plots of land are exchanged, which the code permits.

It can be seen from what has been said that the authorized versions of turnover of the land cater for all the needs of legal entities, the accomplishment of formally prohibited deals included.

Will the Car Not Go Into a Skid?

The draft Land Code envisages such a sharp turn in agrarian policy that it could have the most unexpected consequences. I shall cite the most likely of these.

The discontent of the peasants. The actual confiscation of the land portions and the cancellation of the certificates that have been issued which are specified by the code could give rise to the peasants' resistance. The peasants accepted this gift in silence, but they will hardly remain silent if they recognize that they have been deceived once again. If they recognize in time!

This discontent would be fueled by the townspeople who are the heirs of retirees with land portions. After all, they would be deprived of the right to inherit the land portions of their parents and grandmothers and grandfathers. The farmers also would do their bit in organization of the protest, evidently.

Before the code is introduced, there could also be speculation in the allocation of plots on account of the land portions since, after the code has been adopted, this would be far more difficult or impossible even.

Pressure of the landed estate owners. The purpose of all agrarian reforms in the world at all times, excluding the socialist transformations of the countryside, has been the division of large landed estates and the allotment of land to the peasants for the solution of three problems: the increased efficiency of the use of the land; the alleviation of the peasants' social discontent; the lifting of the pressure of the landed estate owners on society.

Remembering this, all developed countries concluded for current policy that there should be more farmers. The governments of the developed countries understand that large-scale farms are more efficient, but they subsidize small and mid-level farmers and prevent their mass ruin because they understand that large landed estates would cost society even more.

Had the proposed code been adopted in 1990, Russia would have switched from state-property monopolies to 26,000 enterprises of owners of the land. This would undoubtedly have been a step forward. Now, however, the reform proposed in the Land Code is a transition from 11.3 million owners of land portions to 26,000 large landed estates. The leaders of these enterprises would preserve the possibility of categorical pressure on society. But what is far more important is the fact that the problem would not disappear as the decades and centuries passed since the place of the present leader of the farm would in time be occupied by one or several tenant landlords.

Search from scratch. The proposed path of development of the countryside would be unique for the world. Nowhere else in the world is there a country with such a concentration of land ownership or such a powerful capitalist sector in the countryside. In the United States, for example, of the 2 million farms there are only 8,000 nonfamily corporations, including just over 1,000 nonfamily agricultural corporations which have more than 10 investors and little more than 1 percent of the farm land.

In terms of the number of permanent rural wage workers, Russia, evidently, would outstrip all the developed countries put together. The country would be treading uncharted paths. It could learn only from its own mistakes. No one could predict how many there would be or how long it would take to reach the path on which the rest of mankind is proceeding.

Unstable decade. The 10-year timeframe of work to obtain compensation for the land share which the code specifies could give rise to the endeavor of each person who cannot manage this timeframe to leave the agricultural enterprise and to create, if only formally, a peasant farm, and upon retirement, to lease his land and obtain additional income.

Growth of production efficiency. Capitalist methods of management have, as we know, proven more efficient than socialist methods. For this reason a favorable consequence of the introduction of the new Land Code could be a stimulation of the work of the managers of the agricultural enterprises, their search for opportunities to obtain additional income from the leasing of the land, the attraction of money by way of the contribution of land to investors' authorized capital, and so forth. This could accelerate land turnover and the transfer of the land to the hands of those who use it more efficiently and, ultimately, make for increased production efficiency.

National Affairs

NATO Membership Seen 'Not Practical'

954F3549A Kiev MOST in Russian
No 38, 25 Sep-1 Oct 95 p 5

[Interview with Vladimir Mukhin by unidentified correspondent; place and date not given: "Vladimir Mukhin, Chairman of the Supreme Council of Ukraine Commission on Issues of Defense and State Security: 'Theoretically, Ukraine Could Join NATO, but Practically, No.... I Would Vote Against It'"]

[FBIS Translated Text]

[MOST] Kostyantyn Hryshchenko, deputy minister of foreign affairs, speaking at the Ukrainian Independent Center for Political Research seminar "Modern Ukrainian Foreign Policy," declared that a threat exists to Ukraine's territorial integrity. He reported that territorial claims are being brought up against Ukraine by Romania and certain political forces in Russia. What do you think on this score? Do you agree with the deputy minister?

[Mukhin] These claims do actually exist. However, neither the government of these states, Russia and Romania, nor the presidents of these countries have advanced such claims against Ukraine. I know the problem that exists with Romania. I also know the problem of Sevastopol—Russia each time exaggerates the issue of Sevastopol being a Russian city and the like.

The point is that when the disintegration of the Union took place and independent Ukraine came into being, it was clearly stipulated that the entire territory belonging to Ukraine at that given moment was automatically transferred from subordination to the Soviet Union to subordination to Ukraine. There is no juridical international basis for a revision of the existing situation.

[MOST] Does Ukraine as a whole or do individual Ukrainian officials need to react to the territorial claims declared not by the government, but by individual political forces in Russia or Romania?

[Mukhin] I think it is necessary to react when statements on the subject of territorial claims are made by officials. But if they originate from individual political groupings or political figures, then it is necessary that such statements come from our respective political groupings.

[MOST] Regarding the meeting with the commander in chief of NATO's armed forces in Europe. How do you understand the fact that Ukraine signed the "16 + 1" memorandum, on special relations with NATO? What does it give Ukraine?

[Mukhin] I support this agreement. You know that Ukraine was the first of the CIS countries to sign the "Partnership for Peace" agreement. It is necessary that we on the territory of Europe not have two hostile military blocs; otherwise, such a situation could be very dangerous for Ukraine. I approve of Russia's statement that it will also work within the framework of the "Partnership for Peace." On the basis of this cooperation jointly with NATO, Russia, and Ukraine, there will be peace in Europe. But under conditions of bloc opposition in Europe, for instance, of that same NATO and some substitute for the Warsaw Pact, the level of confrontation will increase, the military budgets will increase significantly, and once again it will be necessary to spend a lot of money for the creation of weapons that we are now cutting and throwing away.

[MOST] But on the other hand, NATO's existence does not automatically guarantee that conflicts will not arise.

[Mukhin] It does not, I agree.

[MOST] In that case, why is Ukraine striving toward NATO? What is keeping it from maintaining neutrality, as is written in the Declaration of State Sovereignty?

[Mukhin] We are not violating the principles of neutrality. If we look at the signed agreement, it speaks there only of training a peacekeeping battalion, which would be used in areas of ethnic conflict. It does not speak about offensive operations or armed operations against other states.

[MOST] Mr. Mukhin, as a politician, as the chairman of a Supreme Council commission, do you agree with the assertion that Ukraine should join the NATO bloc?

[Mukhin] No, I do not agree. I would say this: Theoretically, Ukraine could join NATO, but practically, no.

[MOST] But could this be done even theoretically, if we have declared our neutrality?

[Mukhin] This is the situation. If we have declared our neutrality, in just such a way, in principle, we could abandon it. I am saying that theoretically we could join NATO.

[MOST] Why is this impossible practically speaking?

[Mukhin] Because our parliament would never vote for joining NATO, and ratification of such a step by parliament is obligatory.

[MOST] How would you yourself vote on this issue?

[Mukhin] I would vote against. I am for a neutral Ukraine.

Franchuk Denies Wrongdoing

964F0015A Simferopol KRYMSKAYA PRAVDA in Russian 3 Oct 95 pp 1-2

[Interview with A.R. Franchuk, prime minister of the Government of Crimea, by O. Volodin; place and date not given: "A.R. Franchuk: 'Attempts To Drive a Wedge Between the Prime Minister and the Government of Crimea Are Hopeless'"]

[FBIS Translated Text] The activity of the Government of Crimea is constantly the focus of public attention, which is perceptible in letters to the editor. Moreover, letters associated with one or another aspect of this activity have especially increased in these autumn days. The people associate their hopes that the coming winter does not take them by surprise in unheated and dark apartments with the executive authorities of Crimea. How justified are these hopes!?

These and other questions are answered in an exclusive interview with a correspondent of KRYMSKAYA PRAVDA by Prime Minister of the Government of Crimea A.R. Franchuk.

[Volodin] Anatoliy Romanovich, first of all, a question of a personal nature. What prompted you to interrupt your leave as much as a good two weeks before the "official date" of its conclusion?

[Franchuk] Frankly speaking, I have not managed even once in recent years to confine myself to calendar leave dates. And even leave itself is a relative concept for me, inasmuch as it, as a rule, is combined with work. Well, even now I have tried to use "legal rest" with maximum benefit for work—I visited a number of regions of Ukraine where I had detailed conversations with the heads of customs administrations. Another jump in energy prices, which caused a real boom in Ukraine in nonpayments, hit everyone with equal pain. Consequently, it is necessary to coordinate efforts; after all, it is easier to seek a way out of the current economic crisis together. Briefly, a wide range of problems that it is necessary for our government to resolve immediately, and with the direct participation of the prime minister, was the reason for my premature return from leave.

[Volodin] Name the most "glaring" of these problems.

[Franchuk] First of all it is necessary to think of our daily bread. Despite the very difficult conditions last year, we succeeded in establishing a reliable base for the current harvest. However, the material losses of our kolkhozes and sovkhozes proved to be so high that without the help of the state we cannot create a reserve for the 1996 harvest. The main thing today is to ensure a normal rhythm of sowing winter crops. And although last year toward the middle of September the sowing schedule was hopelessly marking time at the zero point, and it now equals 12 percent, it is necessary for us to increase the speed. On the whole, I want to assure Crimeans that the main question about daily bread is being resolved successfully. Already 290,000 tonnes of grain have been prepared, whereas Crimea's requirement for it amounts to 300,000 tonnes.

The autumn hard harvest-time work is in full swing—rice is being gathered, of which we are calculating on getting 75,000 tonnes, and the laying in of vegetables and potatoes for the winter is continuing. While last year during the autumn days the situation with animal fodder in the Crimea was simply catastrophic (with some types only 25-32 percent), now there is every justification for a successful resolution of this problem as well.

[Volodin] Well, and how do matters stand with the preparations for winter, taking into account the energy problems that have befallen Crimea? Will Crimeans not have to use "alternative" sources of light in the form of candles and torches instead of electricity?

[Franchuk] Energy supply problems were the subject of serious discussion the other day in the Government of Crimea with representatives of city and rayon executive committees, and afterwards of directors of enterprises as well. We are most of all troubled by the problem of the preparation of departmental housing for winter, inasmuch as the enterprises that built this housing do not have the resources to pay for natural gas, electricity, etc. We cannot do without the help of the state here, and I will raise this question without fail during a trip to Kiev that will take place in the next few days. But as for immediate electric power, whose limits are now cut for Crimea approximately to 600 megawatts, we hope during the next few months to get an increase in the supply of electric power to the peninsula of not less than 100 megawatts. This means that a winter life with "torches" does not threaten Crimeans. But at the same time, I would like to appeal once more to all electric power consumers with an urgent request to pay for it on time. It is necessary to remember that no one gives us electric power free of charge.

The gas supply question is also continuously monitored by the Government of Crimea. We have already pumped about 300 million cubic meters of the blue fuel into gas storage tanks. A well has been discovered in Shtormovo, and the discovery of yet another well there is expected. And, finally, we also remember the worries of those Crimeans who heat themselves with stove fuel. I can say that by winter, Crimea will be supplied with a sufficient amount of fuel—including at preferential prices.

[Volodin] What can you say about the economic relations between Crimea and the Russian Federation?

[Franchuk] These relations are being strengthened both at the level of our governments and at the level of the regions—of Sverdlovsk, Tyumen, Novosibirsk, Omsk, and other oblasts. We receive orders from Russia for our converted plants, we are establishing joint enterprises, and we are implementing mutually profitable barter operations. Not long ago I had conversations with First Deputy Prime Minister of the Government of Russia O. Soskovets, Deputy Prime Minister Bolshakov, and First Deputy Prime Minister of Moscow V. Malyshkov. We were unanimous on the fact that the prospects for erecting economic bridges between the Crimea and Russia are very favorable. A delegation of ministers of the Government of Crimea and employees of our State Property Fund were sent to Moscow to discuss the details of our cooperation.

[Volodin] Anatoliy Romanovich, as is known, the press continually displays an increased interest in you as a person. Thus, according to the results of a poll among journalists conducted by the Crimean branch of the UNTsPI [Ukrainian Independent Center for Political Research], you were named the most influential politician of Crimea for the first six months. And at the same time, revealing materials appeared in some publications in which the prime minister of Crimea is accused of all kinds of abuses of his official position. How would you comment on such publications?

[Franchuk] Like any person, of course, I do not get any pleasure out of reading such "compromising material." Especially when the accusations, to put it mildly, are far from the truth. However, we are talking here not only about my person, but I, by the way, never held onto the seat of authority with both hands, which my "opponents" are also accusing me of. The fact is that certain political forces in Crimea would very much like to trip up the government, which in contrast to the previous government has succeeded in ensuring the manageability of the national economic complex, and it has succeeded in resolving the problem of water supply of the Crimean Yuzhnoberezhye, which is building the Feodosiya-Kerch gas line despite all of the difficulties and is planning the Chernomorskoye-Dzhankoy railroad, etc. I recall those who a year ago deceived Crimeans with populist pre-election promises and who predicted that the present government "will not survive the winter of 1995." However, we survived and are doing everything that is necessary for the good of Crimea and Crimeans. And the people, after seeing who is who, gave preference in the elections to local organs of authority, and not to demagogues, but to working people— experienced economic managers. And one more important fact: All of the attempts to drive a wedge between the prime minister and the government he heads are absolutely hopeless. The Government of Crimea today is a team of like-minded persons.

Lazarenko Appointment Evaluated

954F3583A Kiev NEZAVISIMOST in Russian 27 Sep 95 p 1

[Article by A. Nosova: "They Talk About It Now—But They Will Be Judged According to Their Deeds"]

[FBIS Translated Text] Welcoming the appointment of Dnepropetrovsk Governor Pavel Lazarenko to the post of first deputy prime minister, the press tried to attach mainly political significance to this fact. Although during the course of his career—from agrarian to the top leader of an industrial oblast—he himself has never been "guilty" of following the path of pure politics. Since he has had to live and work in our turbulent times, he has tried especially hard not to spoil his reputation with squabbles and quarrels. His advisers in the oblast council have included the leaders of Rukh, Prosviti, the Socialist Party, and other parties, of which there are more in the Dnepropetrovsk region than there are in the capital. And the interviews he granted in his previous capacity as governor were very restrained. He never failed to remind people that they had to work more and harder, that every person making his way rapidly up the ladder of success would be judged by his compatriots according to his deeds.

It seems that his fellow countrymen, the journalists of Dnepropetrovsk, were close to the truth in their evaluations of Pavel Lazarenko. In the traditional "fond-farewell" articles of the local press, nostalgic themes were in the foreground: An important businessman had left, and how would he like fighting to have orders executed in the corridors of power in the capital?

And so the Cabinet of Ministers has as its first deputy prime minister a person from the outside, a person who is inexperienced and not yet tainted by a series of appointments supported by special connections in corrupt Pechersk. Although again the brotherhood of writers hastened to report that this is the president's person, his support in his native oblast, and a counterbalance to certain leaders who are getting out from under the president's control. It is an indisputable fact that he appeared on the political scene at the time of the proclamation of the correction of the economic reform. He will have to embody the new formula for the Ukrainian economy: market-driven, state-regulated, socially oriented.

According to rumors, the new figure in the government is against the monarchists. And Viktor Mikhaylovich Pynzenyk in particular is now worried about the fate of his reforms. They say that P. Lazarenko expresses the aspirations of the directors' lobby. Recalling the first deputy prime minister's agrarian past, they are even "predicting" a blossoming of the agrarian policy under his protection. Which, of course, would not a bad thing at all.

True, analysts are afraid that by supporting the directors P. Lazarenko might carelessly block the receipt of Western credit. I do not share their misgivings. If only because I have had occasion to visit the Dnepropetrovsk area and see how the privatized enterprises are operating, how capitalism is being born not only in the souls of recent proletarians, but also in their purses. Lazarenko will not oppose anything that benefits the people and the region. But be so kind as to tell us why he had to be in such a hurry with privatization experiments in places where the country's industrial might is developing.

A real master, and that is what Lazarenko was, will accept foreign capital only under advantageous conditions. Incidentally, he was able to enlist home-grown capitalists in the common work. From Dnepropetrovsk's long-term construction projects he was able to resurrect 70 facilities. And what about the wonderful truck depot in the oblast center? The bridge in Dneprodzerzhinsk. The reconstructed combine imeni Dzerzhinskiy. Construction of the subway is being completed in Dnepropetrovsk itself.

And what does it cost to resurrect Yuryevskiy Rayon, which was dubbed in the facile words of radio "Freedom" a "Potemkin village"? In a once-shabby rayon they built 234 buildings, 210 kilometers of good roads, and 114 kilometers of gas lines. It is worth recalling that before this publicized operation 60 villages in Sinelnikovskiy Rayon were restored without any ceremony.

Perhaps some people are still irritated by the send-off P. Lazarenko was given from the oblast. But how could the residents of Terny, Verbskiy, and Vasilyevka know what awaited their benefactor in Kiev? They sincerely regaled their "master" with pies to eat. Because they associate with his energy the renewal of their village, their new house, the school, the church. Is it apparent that from now on the pride and ambition of a strong businessman will be manifested in doses sufficient to maintain his image at his new— state—level?

In relation to the discussions of why he moved from Dnepropetrovsk to Kiev, allow me to quote one of Pavel Ivanovich's coworkers: Many tried to answer the question from the president, "What are we building?" but an incomprehensible answer would generate another question. It seems that Pavel Lazarenko will have to build a new Yurevka on the scale of the country in order to provide an exhaustive answer to the president's question.

*Transcarpathian MVD Issues Viewed

954F3581A Kiev PRAVDA UKRAINY in Russian 26 Sep 95 p 3

[Interview in Uzhgorod with Maj Gen Dmitriy Fedorovich Dorchinets, chief of the Ukrainian MVD Administration in the Transcarpathian Oblast, by PRAVDA UKRAINY correspondent Anna Kuzma: "What Kind of Compromise Is To Be Expected from the Militia?: an Interview with the Chief of the Ukrainian MVD Administration in the Transcarpathian Oblast, Major General D.F. Dorchinets"; date not given]

[FBIS Translated Text]

[Kuzma] Esteemed Dmitriy Fedorovich. It is known that every sergeant dreams of becoming a general. Please, can you outline briefly what a general's life is like under the current semi-market conditions, given the terrible boundlessness of the criminal world?

[Dorchinets] I have spent my entire conscious life in the internal affairs organs, primarily in the criminal investigation department's subdivisions. Whoever works in the militia knows that this is a service with a lot of sweat and risk and not very much prestige, not to mention money or other privileges. It is true that I have had the opportunity to go on trips as a member of government delegations to China, Great Britain and Switzerland. We were housed in five-star hotels and received warmly. Therefore, I saw with my own eyes both the fascinations of "decaying" capitalism and the charms of Eastern hospitality. I had the opportunity to compare the working and everyday conditions of the law-enforcement agencies and of the population as a whole. A comparison which, I must confess, clearly does not favor present-day Ukraine. But our life goes on, like in the militia serial, based on the principle — "our service is both dangerous and difficult and, at first glance, seemingly inconspicuous...."

[Kuzma] Dmitriy Fedorovich, I remember Uzhgorod (and other cities of the oblast, not to mention the villages) as quiet, cozy and provincial, when it was possible to walk along the streets without worrying about either foul language or a bullet. And, although the situation has changed for the better over the last year, people continue to live apprehensively, even in their own homes and apartments....

[Dorchinets] I would not dramatize the situation like that. In particular, in comparison with last year, fewer murders, robberies, thefts and rapes, i.e., serious crimes, have been recorded in the oblast. In Uzhgorod itself, for the first time in many years, some reduction even in overall crime is being observed. We have stopped being a private domain for highway racketeers. All this has been achieved thanks to a more active and aggressive battle against organized gang formations. Since the beginning of the year, the militia forces have neutralized 29 armed organized groups and 95 firearms have been seized from criminals.

If we are "growing," then it is exclusively due to the economic slump which has provoked a real avalanche of petty larcenies: of products, necessities and the like.

But, all the same, in meeting with colleagues from the industrial centers, I also hear at times: "What problems you have there — some health resorts, receptions for foreign guests, banquets.... If you worked for a while in a mining district, you would see the faces of the strikers and you would deal with peasants." Well, to some extent, they are correct. And so are you. In fact, in the past, Transcarpathia was completely different. Under the communist regime, this was a strictly controlled border area, to which even alien birds did not fly and, if they did, then a watchful eye kept close track of their flight. Now it must be stated sadly: our oblast has become a courtyard, a train station for the CIS. What has especially increased is the influx of those who are longing to go to the rich countries for reasons other than to contemplate the local charms. We have data about the activities of whole syndicates involved in the transportation of stolen vehicles from European countries into CIS countries. And there are narcotics, currency and other contraband.... The borders are attracting criminals like a magnet. And Transcarpathia, fortunately or unfortunately, borders right on four countries and 12 million persons travel across the oblast's territory annually.

And the oblast's quantitative makeup is not the same as previously. The specialists maintain that we are one of Europe's most sparsely populated regions. Large groups of people from Russia and many Ukrainian oblasts have moved to our area to take up permanent residency. A significant number of the crimes in the oblast is being committed precisely by "chance-comers." Quite often, we uncover cases where both the murderer and the murdered person arrived from other regions, having chosen the border oblast as the site for their squabbles.

It is no accident, therefore, that there is an Interpol office in Transcarpathia, which is subordinate to Interpol's National Central Bureau which was established by a Cabinet of Ministers' decree of 25 March 1993. With its assistance, we managed to discover a number of vehicle thefts and a Ukrainian citizen was arrested abroad and extradited to the place where he had committed murders. The fates of several persons who disappeared abroad have been uncovered. Jointly with Hungary's law-enforcement agencies, we neutralized a group consisting of residents of Georgia, Dagestan and Ukraine. They were extorting currency from tourists from CIS countries. The criminals were convicted by a Hungarian court. Recently, an organized gang was exposed, which had committed especially serious crimes in a number of Western European countries.

[Kuzma] Since the first few days of September, the free visa-less travel of Russian citizens to the territory of Slovakia and the Czech Republic has been permitted. This is a result of the Inter-Governmental Agreement signed by Mr. Chernomyrdin and his colleagues during their visit to these countries. It is clear that an absolute majority of the Russian citizens' routes passes through Ukraine and, in particular, through Transcarpathia. Does the unexpectedly large influx into our country of undesirable persons from the East not frighten you?

[Dorchinets] Of course, it does not frighten me. It would not be fitting for the militia to be afraid. On the whole, we are controlling the situation in the oblast and we are able to put our own house in order by ourselves. We have managed to reduce the increase in a whole series of serious crimes. I think that we will also be able to cope with the new task. In addition, we have long-standing friendly ties with colleagues from Slovakia and the Czech Republic and, therefore, we are ready for all kinds of surprises.

The oblast has currently become one of the "hottest" ones in the republic. This is why we are hoping that the MVD's new leadership will examine this matter and give our administration the same status as such oblasts as Donetsk, Kharkov and Dnepropetrovsk. And this would mean that the material and technical supplies would be improved and the personnel structure would be changed. Because it currently leaves much to be desired, although the people are working strenuously, with total efficiency — first and foremost, this pertains to the criminal investigation department, the investigation department and the preliminary investigation department.

[Kuzma] Dmitriy Fedorovich, Lieutenant General Yu. F. Kravchenko, the new Ukrainian MVD minister, having been recently appointed to head the ministry and having steered a course toward certain transformations in the force-oriented department, is probably counting on local initiative in these matters. What suggestions would you submit to the minister?

[Dorchinets] First, it is necessary to grant special status to and to place on an equal footing the militia's leading subdivisions — the criminal investigation department, the sixth service and the investigation department. These are precisely the ones, as previously mentioned, which are on the front line of the battle against crime. And so, currently, in the internal affairs organs, some are "grazing," while others are receiving laurels.

An acute matter is the question of raising the status of the chief of the city rayon department and the district inspector. The road and other services should be included in the structure of the city rayon department locally and be subordinated to their administrators, so that there would be one chief in one area. The authority of the district inspector has been reduced inexcusably. While being the first representative of authority locally, with whom people come into contact, he does not have the right even to impose a fine. In order to do this, he has to bring the violator to the center, but it is well known how the buses run and by far not all of them have a motor vehicle — here you have your respect for authority. The piece of paper, on which the district inspector writes up the report, costs more than the fine which is imposed. Absurd? Absolutely.

Even worse is the situation involving fine sanctions with respect to the GAI [State Traffic Inspectorate]. It is hard to believe this, but, for the majority of offenses, the inspectors have to write out tickets, on which laughable amounts are mentioned... from 6,000 to 18,000 karbovanetses. Much is said about the problems caused by drunk driving. However, the fine for this grossest violation of the PDD [traffic rules] ranges from 180,000 to 300,000 karbovanetses.

Of course, solving these problems completely comes under the jurisdiction of our country's parliament. But the legislators simply cannot delay in considering the ministry's corresponding proposals. After all, making the fine sanctions harsher will not only help to put things in order, but also to replenish the currently barren state treasury.

For a long time and still to no avail, there has been talk about differentiated wages. Someone who faces a bullet and someone who fills out passports in a warm office should not receive the one and the same salary. But, for now, that is the way it is.

As for the new minister, Yuriy Fedorovich Kravchenko is a person who is businesslike and competent and who knows militia life, as the saying goes, other than by hearsay. He has visited Transcarpathia repeatedly and is well acquainted with our region's troubles and problems and we are counting a lot on his support.

[Kuzma] The last question is "for a tidbit." For almost a year, the newspaper SRIBNA ZEMLYA, published by the concern of the same name (the president is former Ukrainian People's Deputy Viktor Bed), literally in every issue and for several pages at that, has been fiercely and aggressively attacking General Dorchinets, his collective and now even his family. We journalists, as well as the oblast's population, know well the reasons for this "intent attention" being paid to the chief of the UMVD [MVD Administration]. Meanwhile, the authors of the "sizzling" facts, as a rule, hide behind a pseudonym, showing their unwillingness to answer for what has been done. What is your impression of these articles?

[Dorchinets] I believe that they have one goal — to draw the militia collective into squabbles so as to prevent it from battling the mafia with all its strength. Today, every militia worker who wants to perform his duties honestly and true to his principles should be ready for anything.

Remember when we began to concern ourselves seriously with abuses in the sphere of the foreign economic activities of certain "tough" businessmen, Militia Major Vasiliy Balega, who had just returned from a trip to Budapest, was blown up. We began checking in detail the credit and financial activities of the Tornado BVV firm headed by Viktor Bed's brother Vladimir who had previously been convicted of theft involving the use of a militia uniform and there began an endless series of attacks on the UMVD chief. A whole group of "messengers" came to me from Kiev, including people's deputies — they proposed a deal: you set Vladimir Bed free and we will stop the attacks on you in the press and in the parliament. I rejected this "compromise." And the attacks continued — in old and new forms, although the investigation into the Tornado BVV case had been completed and seven volumes of collected materials are waiting to be examined in court.

As for the endless and varied articles, the impression is being created that they are being written by people without honor or conscience, who do not restrain themselves with any limits of decency and do not bother themselves with any kind of verification. And there can hardly be any verification, if the facts are pulled out of thin air. We filed suit against SRIBNA ZEMLYA, the court imposed a fine of 700 million karbovanetses on the newspaper and also obliged it to apologize to me.

Then one republic newspaper joined in the matter, following in SRIBNA ZEMLYA's footsteps, with its own vociferous article against my son. Its material was also not corroborated by proof of any kind. Everything in it was a lie and a falsification. How can there be any talk about my son being involved in 4-5 motor vehicle accidents, when he has not had a motor vehicle for more than 2 years now?! The red (and not at all silver)

Ford acquired at the beginning of the nineties had been transferred to one of Uzhgorod's residents by a general warrant. And the fact that my son was not involved in an ill-fated DTP [traffic accident] in the summer of this year (yet it is precisely with a picture of this event that the article in the republic newspaper begins) is testified to not only by documents, but also by eyewitnesses to the accident, who helped the militia associates over the course of several hours to extricate the driver, V.I. Konkolnyak, from the vehicle's passenger compartment, which had been deformed by the impact. If the Kiev newspaper does not apologize and does not publish our refutation, it will be necessary to go to court again.... Fortunately, we already have experience.

We clearly and unambiguously understand precisely to which forces it is advantageous to draw the UMVD chief into legal actions.. This is why Transcarpathia's internal affairs organs have not made and will never make shady deals and compromises with crime. Nothing — neither slander nor intimidation — will hinder us from carrying on the battle against evil. Those who sow it will answer in accordance with the Law.

Suprunyuk Opening Speech to Parliament

954F3533A Simferopol KRYMSKIYE IZVESTIYA in Russian 21 Sep 95 p 1

["Speech of Crimean Supreme Council Chairman Ye.V. Suprunyuk Opening the Third Session of the Crimean Supreme Council"]

[FBIS Translated Text] Esteemed Deputies!

Today we open the third session of the Crimean Supreme Council. I do not believe there is any need to delve into how significant its results will be for Crimea. I just wish to emphasize the exceptional importance not only of the many issues we are about to examine, but also of the conditions and atmosphere in which we will be operating. We must confirm our intention to work constructively, to accomplish specific tasks in the existing legal environment.

We have used the time that has passed since the conclusion of the second session precisely to create such conditions. This period of time may be considered a "parliamentary holiday" in name only. The Presidium has been working intensively. Many deputies have participated actively in the resolution of specific issues. The Supreme Council Apparatus—reorganized to a certain degree—has been fulfilling its functions. I know that active consultations have been underway within many factions. I sincerely hope that here too a search has prevailed for ways in which the Supreme Council can operate constructively.

The Presidium has been moving in several directions. We have been striving primarily to create all the conditions necessary to achieve positive results in the work of the session, carefully studying all matters presented for its examination. We have tried to reestablish an effective system of government in Crimea. The well-known edict of the Ukrainian president that was adopted in August has to a great extent contributed to this effort. Permanent, close contacts have been renewed with the republic government. At the same time, it seems to me that normal mutual business relations have begun to be reestablished with the rayon and city councils of people's deputies. There have been several meetings with the chairmen of city and rayon councils. Most importantly, we are seeing a consolidation of understanding of the need for open business relationships and joint actions in resolving the problems we face. The Supreme Council has done everything possible to see to it that the elections of chairmen and deputies of city and rayon councils proceed smoothly. I am happy that knowledgeable, experienced, and—most importantly—authoritative people have acceded to the leadership positions in cities and rayons. I have no doubt but that we will succeed in establishing close interaction in the search for a way to extricate ourselves from what we must quite frankly consider Crimea's adverse situation, especially taking into account the onset of the fall-winter period. The first steps have been taken. We have charted a number of measures in support of agriculture, some of which we have already succeeded in implementing. For example, the problems related to supporting operation of the North Crimean Canal have been resolved.

The Supreme Council Presidium has participated in resolving current socioeconomic problems. To a great extent thanks to its actions, ORT broadcasting on Channel One has been reestablished. We are also striving to resolve the problem of unrestricted entry of Crimeans into the city of Sevastopol. Unfortunately, this issue has not yet been fully treated—after all, not everything depends on us. Kiev and Sevastopol have not officially responded to our communication, and so we have yet to hear from them. The city of Sevastopol administration has not, in my view, adopted a clear-cut position. It is citing the need for adoption of a resolution in session of the city council.

We are constantly monitoring matters dealing with Crimea's energy supply, seeking ways to ensure normal operating conditions during the fall-winter period. Very great efforts will be required to resolve our entire complex of problems here. I am hoping that the Supreme Council, government, and leadership in the localities will act with precision and harmony in this effort.

We are striving to bring our relations with the Ukrainian organs of authority into a businesslike framework. Progress in this regard is evident. Healthy dialogue has been established on the level of both the legislative and executive authority. Meetings have been conducted with all the Ukrainian leaders. The president of Ukraine has been devoting a great deal of attention to Crimean problems. His visit to Feodosiya and meetings with the heads of enterprises and chairmen of city and rayon councils were exceedingly important to us. Our discussions with the chairman of the Ukrainian Supreme Council and Ukrainian prime minister were held in an open and constructive atmosphere. In my opinion, an understanding of our problems and of our policy has been formed at this level. We see a genuine desire to assist Crimea although everyone understands that the situation in Ukraine, without any doubt, is also quite adverse.

I do not wish to present everything in rosy colors. We see unilateral attempts to resolve certain problems, some of which are indeed quite complicated—ownership issues, for example. But I do not want to see these issues used to sever the normal relations that are being formed. Healthy dialogue does not preclude the presence of various points of view. In the long run, it is important to find common, mutually acceptable approaches. I have no doubt but that these will be found, but I would like everyone to understand that in matters concerning the interests of Crimea, the Supreme Council—and I as its chairman—will maintain a principled position. This in no way means that we wish to encroach upon the interests of others. I am convinced we can always find compromise and identify common interests. In my view, such interests presently consist of maintaining stability and a normal life rhythm in Crimea, and of resolving the serious economic and social problems that confront us.

We are striving to achieve one thing—the opportunity to function independently within the framework of the laws of Ukraine. To this end we are working to create an open economy in Crimea. Our real prospects in this regard are confirmed by the presence of our delegation in Kiev, headed by A.S. Danelyan. If we are successful here, we will manage to do a great deal for Crimea.

We see encouraging results in the activity of the Committee on Interregional Relations, headed by Yu.V. Podkopayev. We have received convincing proposals during contacts with international organizations, including with R.A. Chubarov, with respect to assisting the process of the return of deported peoples and the economic development of Crimea.

The third session, in my view, should demonstrate our consistency and responsibility. In no way would I like to see deputies embark on the path of settling mutual scores, splitting the Supreme Council, taking advantage of one or another procedural aspect, personnel appointment, or provision of premises to deputies and deputy commissions, or undertaking purely propagandistic measures. The citizens of Crimea realize full well what stands behind this—my meetings with voters bear this out. I do not believe such actions can prove beneficial or provide an opportunity to "score points," and the harm they inflict upon Crimea is indisputable.

If things happen this way, we will once again be condemned to marking time, our attention diverted away from solving Crimea's vitally important problems. I think the main orientations we must pursue today deal with the republic constitution and the determination of Crimea's economic strategy.

In order to develop economic strategy, we intend to create the Economic Council, which will include experienced business managers, the heads of sectors and enterprises, and economists. We are also relying on assistance from Crimean scientists engaged in the resolution of these problems.

At this difficult moment for Crimea, we call upon political parties and public organizations to surmount all discord and unite in their efforts to bring the republic out of economic crisis. We are prepared to examine all programs and proposals for improving our economy. We hope to see representatives of all political forces participating in the work of the Economic Council.

I appeal to all to engage in harmonious and constructive efforts.

*Crimea Local Election Winners Characterized

954F3569A Simferopol KRYMSKIYE IZVESTIYA in Russian 27 Sep 95 p 1

[Article by ANIAE Chief O. Prokovyev under the rubric "Independent Expert Evaluation": "The Birth of the 'Old Power'"]

[FBIS Translated Text] *The painful seven months of labor for the birth of the local power (March-September) are over, and elections to the local councils are basically completed.*

Those who wanted to participated in the elections, and those who could entered the local organs of power at various levels. According to the results of the voting on 10 September 1995, the following were elected (in percentages):

Level of power	Council chairmen	Deputies
City councils	81.8	90.8
Rayon councils in cities	—	95.4
City councils in rayons	20	57.7
Rayon councils	92.9	95.2
Village councils	91.4	87.9
Rural councils	96.7	98.2

As we anticipated, the least activity was found in the elections to rayon councils in cities and city councils in rayons. Obviously, it is difficult to convince the voters of the need for these levels of power.

But still, 93.7 percent of the chairmen were elected, as were 95.3 percent of the deputies of councils at all levels. And this means that legitimate power has basically been formed in Crimea, for which we congratulate the Crimeans.

True, only three of the 11 cities (Armyansk, Dzhankoy, and Kerch) can boast that they have full representation in the organs of power (the chairman of the council and the entire deputy corps were elected). This is also true of nine of the 14 rayons (Bakhchisarayskiy, Belogorskiy, Dzhankoyskiy, Krasnogvardeyskiy, Krasnoperekopskiy, Nizhegorskiy, Razdonenskiy, Simferopolskiy, and Sovetskiy), 18 of the 30 village, and 209 of the 230 rural councils. In percentages these figures are, respectively: 27.3 percent of the cities, 64.3 percent of the rural rayons, 51.4 percent village councils, and 86 percent of the rural councils of Crimea.

The power was legitimate at practically all levels, since they elected the chairman of the council and no less than two-thirds of the deputies of the deputy corps.

There are still chairmen and deputies to be elected, but even today one can draw the first serious conclusions, taking into account the fact that it is not likely that less than 10 percent of the chairmen of local organs of power still to be elected will be able to introduce anything fundamentally new.

The analysis in this survey is based on figures about the chairmen of the councils, since the course of their election campaigns and victories in the elections characterize the processes taking place in the sociopolitical life of the peninsula.

Among the newly elected council leaders:

Level of power	Men	Women
City councils	100	—
Rayon councils	100	—
Village councils	90.1	9.9
Rural councils	72.5	27.5

Women make up 21.9 percent of the chairmen of councils at all levels. In one of our preceding surveys we noted that the higher the level of power, the fewer women are represented in it, and the table for this vote bears this out.

The ages of the chairmen of the councils range from 27 to 59. The average age is 48.3 years—fairly respectable, responsible, and conservative. Only 2.6 percent of the leaders of councils are under 30, while about 25 percent are over 50. Are people who are mature in terms of years and strength prepared to live and work under the new conditions? Will they support and implement the economic reforms we need so much?

The official results of the elections of council chairmen in terms of their party affiliation are as follows:

Level of power	Total elected	No party	KPK	PEVK	SPRK
City councils	9	7	1	—	1
Rayon councils	13	9	4	—	—
Village councils	32	26	5	1	—
Rural councils	236	218	18	—	—

About 90 percent of all the council chairmen who were elected conducted their election campaigns with nonparty status. And this is a criterion showing a fairly negative attitude on the part of society toward parties and social movements.

In the structure of party affiliation, representatives of the Communist Party in this stage received 28 chairman seats, and the PEVK and SPRK—one each. But the victory of the Communist Party is also a defeat, since the communists received less than 10 percent of the positions of council leaders. True, one must not forget that most of the council chairmen remained in office for another term and many of them represent the former nomenklatura. Consequently the Communist Party has significant reserves, especially in the lower structures of power.

But the results of the elections are only the tip of the iceberg in the election struggle. During it there was an especially strong opposition between the communists and the entrepreneurs. A series of subjective processes related to the election race and the results of the elections will remind us for a long time of the labor pains of local power on our peninsula. In a future analytical survey we will try to discuss this in greater detail.

The majority of the newly elected council chairmen (76.9 percent) are either former leaders or workers of the councils. They are people with a large amount of experience working in power structures and are able to use this power.

At the same time, 23.1 percent of the council chairmen are new people. And 95.5 percent of them were elected at the level of village and rural councils. Who are they, how did they come to power, what do they want, and what can they do for their constituents?

They are younger than those who were re-elected. Their age—about 40, and 95.5 percent of them are nonparty members and represent the most diverse social and professional groups. Among them are 12 who are unemployed, several pensioners, representatives of the directors corps, entrepreneurs, teachers, public health workers, engineering and technical personnel, representatives of the sphere of culture (including a decorator), trade union representatives, an insurance agent, brigade leaders, and workers in agricultural production. They are new people with new ideas and plans, and God help them do something to improve the life of Crimeans.

P.S. We express our sincere gratitude to the department of the Supreme Council of Crimea for questions of council activity for the primary information they provided us.

*Changes in Ukrainian TV Assessed

954F3547A Kiev KIYEVSKIYE VEDOMOSTI in Russian 22 Sep 95 p 20

[Article by journalist Igor Nimchenko: "UT-1: Landscape Between Battles"]

[FBIS Translated Text] We are living under the motto "Everything is boiling, and everything is uncooked." The sign of an uncooked situation is that, however you appeal to the evolutionary path, the changes — both the favorable ones and the not very favorable ones — happen in leaps, from Sunday to Monday. Therefore we nervously awaited the new revolutionary television schedule.

Suddenly, late last week, I realized that I had not switched my television set to the ORT channel for a long time. Not even to the "Vremya" [Time] program, which has already filled us up with the news from Chechnya, mixed in with the election congresses. Patriotism has nothing to do with this. It is simply that this was the first time I watched UT-1. The noisy advertising of Studio "1 + 1" had not lied, and the motion-picture program proved to be first-rate. The films shown are as good as in Moscow, and there are certainly enough of those that I drool over when reading TV-Park. I am convinced that it is a matter of indifference to the viewer that copies have been purchased, rather than stolen. But a good movie, and a decent, or at times simply excellent, dubbed version, are difficult not to evaluate. "P'yatyy Kut," despite its obvious tendentiousness, is similar to real television, and "Pyslyamova" is already real. Lyudmila Lysenko, who has become younger and prettier, in the breaks between programs spoke appropriately and in an interesting manner. A sufficient amount of tennis was shown, and one must assume that the soccer fans alsoo have nothing to complain about. There is something else that is pleasant: the scheduling of the broadcasts has become intelligible. In a word, Channel 1 is beginning to look pretty good.

As for the switching of ORT to the third button and the farming out to the oblasts of the job of relaying it, Gosteleradio [State Television and Radio System] chairman Zinoviy Kulyk has made the latest in a series of masterful moves, which was not evaluated only because his own consoling propaganda apparatus had not completely foisted or reported properly to the masses their chief's idea. Everyone has stubbornly resisted hearing that there is no money and there will be no money to transmit the Moscow signal. The masses consider money in someone else's pocket only when it is obvious there. When it isn't, the masses display punctiliousness and behave like a small child in front of an ice-cream vendor's stand: I want it all! Is that how it is: the people in the outlying areas demand "Ostankino"? Well, now the people in the outlying areas can tie themselves in knots, deciding where to find the money. Kiev is washing its hands.

It is doubtful that Zinoviy Kulyk, a professional and an experienced tournament player, would undertake a revolution on television all by himself, without enlisting support at the highest levels of power. This is all the more necessary in that, in television itself, innovations are met with bayonets. When, on the eve of the changes, an open anti-Kulyk campaign began in the press, it became obvious from the nature of the information leaks that the legs were growing directly from Kreshchatika, 26. One should not have expected anything else, inasmuch as the financing of the old editorial offices that had given birth to endless television essays, "portraits," and other rarities, was sharply reduced. And their creators, who do not know how to photograph anything else, or who do not want to, are thrown into a panic.

But it is not only that, properly speaking, plans are under way to reorganize the television leadership. Any project that changes the trajectory of the "black *nal*" to UT, would encounter desperate resistance — first of all from those to whom its stream is currently ebbing away in such a real manner. The mechanisms of bribes on UT are Polishinel's secret. If a firm wants to make an announcement about itself to the city and the world, it is much simpler (and cheaper) to do so through the underground: it might cost a nickel, or it might cost a hundred bucks, and then television presents an item or an entire broadcast on the success of a Ukrainian-*Fingal* joint venture on the path to capitalism. The material has presumably gone through the editorial office. Equipment, transportation, executors — everything is at the expense of the television company. There's a difference: paying through official middlemen $1500-2000 for one minute of air time, that is, only rental, without making copies? Or a couple of hundred in cash directly to the executors for five minutes? It is a matter of complete indifference to the viewer whether it is this joint venture or another one. A small number of associates live on concealed advertising without any pangs of conscience. Do you remember what Zhvanetskiy said: "There is this disabled individual and this disabled individual, but the second one offers money. Well, you can find a person who will not take it. Let us assume, a former pilot. But it is easier even to die without looking over your shoulder, than to live your entire life without looking over your shoulder"...

People on the inside of television assert that the multilevel system of issuing visas for programs has been preserved to this day not so much even in the name of political censorship, as for the sake of revealing the secret sale of air time. It is useless to fight that evil by conventional means. It is senseless to introduce order. The only way to put an end to the pumping of a state resource into private pockets is to provide financial independence to viable projects (that is, to create those conditions when it will not be profitable to steal) and to make it possible for subdivisions that are incapable of competing in the ideas market to turn up their toes quietly.

Irrespective of one's sympathies to a particular side, it is difficult not to recognize that the current leadership of Gosteleradio is attempting to achieve the same thing that the creators of ORT initially attempted to achieve: the conversion of television from a trough for not very talented people into an industrial, viable organism. And it is clear that with the favorable situation that pertains, the German Innova firm that is financing the newly created Studio "1 + 1", that is, the entire showing of movies on Channel 1, can play the role of an icebreaker for domestic investors. As the channel rating rises, as soon as real advertising starts flowing to it, and the average-ceiling rates approach the equilibrium of supply and demand, it will become profitable to invest money in television. In the long view, an advertising minute on Channel 1 may cost only a third of what it cost on ORT, and that would reflect the correlation between the population of Ukraine and Russia. Incidentally, if one counts on one's fingers, there is more actually live money in Russia. In addition, Channel 1, both for them and for us, remains to a considerable degree the capital's channel. However, there is no comparison between the well-being of Kiev and Moscow, where the average (yes, the average!) wages are in the area of $400. And even 20-25 percent of the previous "Ostankino" rates comes to approximately $5000-6000 of "filthy lucre" per minute. Even with the deduction of taxes and with all the overhead expenses, this price level can guarantee the profitability of television projects. It is another matter that it is necessary to keep growing to reach that level. It is necessary to attract advertising "majors" — very large-scale worldwide agencies which still have representations at best in Moscow, and it is necessary to convince the local producers and sellers of goods and services of the effectiveness of advertising on UT. It remains to be hoped that the professionals who have arrived here with their experience will be able to cope better than we have been able to.

There is something else that is obvious: as long as television is poor and weak, it will depend on anyone who is capable of shutting off the faulty faucet of state financing. As soon as it becomes capable of earning real money, it will become increasing difficult to manipulate that money in the interests of individual politicians or groups. Many people behind the walls of television do not like the fact that the next presidential election will occur in just four years. They would like to see, if not a repartitioning of power, then at least a warping of it. There are a few people within the walls of television who, in their turn, hope to be asked for by today's political outsiders. Which is possible only with the confines of the weak structure that has got stuck in informal "relations." That is why even the partial self-sufficiency of state television means automatically its complete departization. Apparently this has already been understood in the Supreme Soviet. It has become known from confidential sources that during the very first days after the vacation, Kulyk was called on the carpet at parliament. Judging from the fact that that was not followed by the introduction of any changes in the program, and, in particular, there was no restoration of the broadcasting of the sessions (one would scarcely think that the deputies understand that the less that is shown of them, the less their popularity suffers). The meeting ended in a draw. Formally, as long as the Constitutional Agreement is in effect, the head of Gosteleradio is not subordinate to the Supreme Soviet. It is simply that the parliamentarians may not have sufficient nerves to reconcile themselves to this. Therefore one should not be surprised if the changes in Ukrainian television space become an impetus for the next in a series of political mistakes.

Economic Issues

Draft Economic Plan Faulted

954F3571A Kiev GOLOS UKRAINY in Russian 23 Sep 95 p 3

[Article by S. Terekhin, people's deputy, scientific researcher at Harvard University: "The Programmed Course Correction Will Cause Inflationary Peak"]

[FBIS Translated Text] **By contrast with the almost 10 programs adopted either by the government or Supreme Council over the past four years, this one, beside its economic content, has a fundamental political significance. The Constitutional Agreement links the fact that it was not adopted with the automatic resignation of the Cabinet of Ministers.**

The Ukrainian Open Society Institute analyzed the government draft program, pushing aside the rightful adoption of economic "correctors" for "the priority of stabilization of production over stabilization of inflation and the budget deficit." Every rank and file citizen has become convinced of the destructive effect of inflation on his own budget and that of enterprises during 1993!

It also makes no sense to identify with followers of the socialist monetary system with near-scientific viewpoints, since those who failed to assimilate the arithmetic cannot grasp analytical algebra.

A firm conviction that natural pragmatism and common sense of those with executive power shall triumph motivates an analytical review of the draft program.

Thus a short analysis of macroeconomic indicators for 1996 indicates their absolute lack of coordination with each other.

A Clearly Incorrect Version

The balance of trade deficit of $2.19578 billion is announced without explanations of methods to be used in eliminating it. If external crediting is proposed then that will amount to not more than 35-40 percent of the planned deficit. If it is planned to discontinue the servicing of external debts and current payments (of Russia and Turkmenistan), it is unrealistic by virtue of economic and political reasons. If there is expectation of a favorable balance of non-commercial payments, that is totally excluded in view of the deficit. At the same time the indicated balance of trade deficit increases the weight of the GDP in accordance with the predicted foreign currency exchange rate by 725 trillion karbovantsy and lowers the absolute value of the planned budget deficit for 1996.

It is easy to establish that the settlement foreign currency exchange rate of 330,000 karbovantsy to the dollar does not correspond with the predicted level of inflation of 146.2 percent, or the indexes of monetary financing of the budget deficit. Without reverting to arithmetical explanations, calculations of the inflation level, in accordance with the probable dynamics of the money supply, indicate a tripling of its real level compared with calculations of the Ministry of Economy. Taking this into account, as well as preservation of absolute indexes of budgetary expenditures and the share of the direct monetary financing, inflation will amount to 7.4-8 percent a month. In any case the foreign currency exchange rate must come to 220,000 to the dollar with maximum deviations of 2.5 percent.

Consequently the draft provides for an exaggeration of the predicted GDP and also a lowering of the predicted foreign exchange rate which, in the end will make it impossible to form a national currency stabilization fund.

Start at the Beginning but Calculate on the Basis of the Budget

The draft provides for a decrease in the relative amount of the budget deficit but it is not known how—through a more rigid taxation, which is today already one of the highest in the world, or a decrease in budgetary expenditures which is not peculiar to the government. It is necessary to establish clear limits for administrative withdrawals limited to the maximum redistribution of the GDP through the budget at the level of 45-47 percent.

Ukraine is one of the few countries which continues to use credit emissions of the Central Bank for direct monetary coverage of the budget deficit. This, in turn, leads to the accumulation of a significant inflationary potential. For instance, with the preservation of direct emission crediting of two-thirds of the budget deficit, as it is planned in the draft, will result in 220-225 percent annual inflation. The deficit should be covered through the attraction of bank credit of the National Bank of Ukraine and commercial banks with the sale of GKO [government short-term bonds] on the open market. At the same time the National Bank of Ukraine and the Ministry of Finance must coordinate the policy of supporting the market value of the GKO and carry out methodological measures for the organization of a secondary GKO market. That is why we are talking not about a halt in credit emission, which will be conducted with the rise in the nominal GDP, but about the use of GKO and the maintenance of their market value and the foreign currency reserves. Finally, let us talk about maintenance of the foreign exchange rate of the national currency unit. That question is one of the key ones in the program. Without a change in approaches to the mechanism for covering the budget deficit, the macroeconomic ambitions of the government are condemned to failure.

What Are We Building and How?

What will the domestic economy be resting on? On government or quasi-governmental monopolistic industrial-banking groupings with a high share of hired workers or on small and medium-size business with a predominant majority of self-employed individuals?

The first path is peculiar to the economy of countries with a low degree of development of democratic principles and the entrepreneurial consciousness of the population. It is the easiest one for Ukraine from the viewpoint of its practical implementation. It is also most advantageous for realization of the tactical goals of the ruling summit, taking into consideration the dependence of financial capital on administrative decisions. In addition, the high share of hired workers and the dependence of profitability of enterprises on administrative decisions place additional social obligations on the government and, as a rule, lead to social discontent. That is the world experience.

Ukraine, with a monopolistically oriented economy and an excessive social load on the budget, has no economic grounds for strengthening the concentration of markets and must reject the granting of tax, trade, or budget benefits to individual branches or enterprises.

Introduction of the regulation of consumption funds would be proper for enterprises the prices for whose products (work, services) are subject to correction as well as for state-owned enterprises or those in which a controlling package of shares is owned by the government, and then only until the introduction of a tax on assets (property) of enterprises.

The products of monopolistic enterprises and enterprises, budget establishments which extend government or mandatory services (notary services, mandatory audits, mandatory certification, and the like), and enterprises receiving subsidies out of the budget must be subject to price regulation. Management of the consumption funds of enterprises not owned by the government, however, is an economically unsubstantiated step, which will instantly bring about an increase in the money supply outside the shadow capital accounts.

It is equally dangerous to attach remuneration of the labor of workers in budget branches to the level of wages in the national economy.

The correct approach would be elevation of all budget workers to the rank of government employees, attachment of wages to the non-taxable minimum wage and introduction of correction coefficients for the inflation level. The government must stimulate a rise in real wages of the population and not restrict them, concentrating its attention only on the elimination of disproportion in taxation of enterprise and citizen profits, shifting the taxation press to end consumption.

Two basic questions remain unsettled—the one concerning relations of the Chernobyl Fund to the state budget, and the basis for formation of the Chernobyl Fund.

From the economic viewpoint it would be most feasible to raise the indirect tax, for instance the value-added tax (by four percentage points for the full compensation of planned budget expenditures on the Chernobyl program), or, in an extreme case, introduce a 2 percent sales tax. Such a solution would receive widespread social support and eliminate contradictions when, on the one hand, the government is interested in limiting the consumption funds, and on the other hand, in increasing receipt of Chernobyl contributions; that is, in an increase in the consumption funds.

Unfortunately the program does not differentiate the main principles of pension reform. At the same time it is planned to develop the system of nongovernment pension funds, splitting responsibility for the formation of the state pension fund between the employer and the worker and introduce the principle of the honor system for deductions into the state pension by the self-employed population, etc.

The area of housing policy is one of the most painful ones for the citizens and it employs old but absolutely untenable approaches. At the same time experience of recent years has indicated the ineffectiveness of the former system of subsidization and preferential credit terms for housing construction which rested upon a system of planned distribution of financial resources and had an extra-budgetary character. Under conditions created by decentralization of banking activity, the government has just one financial lever—the budget. The experience of many countries indicated the unfeasibility of utilizing direct housing subsidies or credits—it proved to be too difficult to exercise administrative control over the designated utilization of these funds. The government can limit the amount of such benefits to the cost of the average statistical living space on a per capita basis.

Without denying in general the need for registration of the place of permanent residence of the citizen, the government must simplify procedural requirements for the acquisition and sale of real estate and present a legislative initiative lowering taxes on subjects of such a market to 30 percent of the basic rate. The time has arrived for financial support of decentralized housing construction through the development of mortgage crediting.

The financial-budgetary policy almost completely circumvents questions of fiscal federalism (differentiation of expenditures and revenues of budgets at various levels), methods of covering the budgetary deficit, and the structure of the government short-term bond market.

The law on the budgetary system in Ukraine, adopted in 1995, does not resolve the main principles concerning distribution of the funds of a consolidated budget among budgets at various levels and sets a complicated four-step redistribution system.

Unfortunately, with the existing system of regulating the profitability of regions, the council at the highest level sometimes adopts decisions on the assignment of temporary budgetary revenues (for example, those from privatization) for the financing of permanent items of expenditure (for example, maintenance of budgetary spheres or regular payments to the population). The principle of a three-step formation and distribution of the consolidated budget: state budget—oblast budget—city (rayon in the countryside) budget, appears to be the most acceptable one.

The principle of social justice (equal fiscal and subsidizing attitude of the government toward each citizen) must become a key factor in the making of decisions concerning norms for redistribution of the revenue portion of the consolidated budget.

It is necessary to legislatively consolidate the principle of stability of the budgetary process as well prohibiting the adoption of decisions by organs of self-government at the highest level concerning an increase in expenditures of budgets at the lowest level without there first being an increase in revenues.

In conducting the tax policy, government must proceed from the fact that tax benefits are not an effective tool of structural policy. The system must be built on principles of the equality of subjects of taxation in order to prevent a breakdown in the field of competition, economic effectiveness of taxation, administrative simplification, and political responsibility. Otherwise the subjects of taxation will regard the tax system as socially unjust and will avoid paying taxes.

Proceeding from general principles of the conduct of structural policy, government must stimulate operations in long-term crediting and not the subjects carrying out such crediting.

In order to maintain the liquidity of financial-credit establishments conducting operations aimed at attraction and distribution of the monetary funds of the population, as well as for the development of the GKO market, it is feasible to distribute part of the resources of such establishments in government short-term bonds on the condition that work on attracting monetary funds of the population will be carried out exclusively by financial-credit establishments licensed by the National Bank of Ukraine.

Our Money in a Raw Draft

The government must determine that before conducting a reform of monetary financing of the budget deficit and liberalization of price formation and foreign trade, it is feasible to continue to limit the utilization of foreign currency and forms of payment. The nature of capital outflow should be clearly realized: weak macroeconomic positions and a rise of the monthly inflation rate by 1-3 percent spawn inflationary anticipation.

Proceeding from the role and place of the National Bank of Ukraine and the structure of the credit and currency markets, it appears that preservation and development of a multiple-currency regime in Ukraine is impermissible. The position of the government regarding a narrowing of the mandatory sale of foreign currency proceeds with an inflation rate exceeding 2 percent per month, and the absence of a market scheme for redistribution of refinance credit, will lead to a narrowing of the legal exchange market and to the squandering of official foreign currency reserves.

The government must utilize a scheme with full domestic convertibility of the national currency unit and with full foreign convertibility in trade operations.

The main principles of the anticipated monetary reform should incorporate a non-confiscatory method of conducting it, a two-three month period for exchanging personal cash, repeal of a multiple-currency regime, and transition to a system with a currency anchor (or currency tunnel). In the course of the monetary reform it is deemed feasible to introduce a system with an ECU currency anchor and establish maximum deviations from the fixed rate (as a rule at the level of the planned monthly rate of inflation), while legislatively obligating the National Bank of Ukraine to maintain the currency tunnel through currency or karbovantsy intervention.

Analysis of the structure of the shadow currency market indicates the economic absurdity of conducting a confiscatory monetary reform. The main supply of money is being serviced by the commodity turnover and is not a source of savings.

What is brought about by prohibiting residents from opening accounts outside of Ukraine? The slowdown in joint international investment and cooperative projects, new problems for international transportation organizations, and curtailment of foreign business activity. Instead of the proposed restrictions the government should establish rigid rules concerning monthly reporting of the results of foreign activity of a resident for tax collection purposes.

In selecting orientation points for the price policy the government must proceed from the position that the main inflationary factor in Ukraine is the lack of coordination of the dynamics in the growth of the money supply with changes in the value of the real GDP. At the same time disproportion in price formation, conditioned by the excessively monopolized structure of the economy and the high share of the state sector, comprise a miserly component of overall inflation by comparison with the monetary factor. That is evidenced by analysis of statistical data for 1992-1994.

The thesis to the effect that through introduction of price regulation the government will be able to raise the effectiveness of export-intensive types of production is not economically understandable. Economic history indicates the opposite.

Unfortunately the draft program rests on the central thesis of a planned economy: "Administrative regulation of the price structure is more effective than the mechanism of price regulation with demand and supply." Negative consequences produced by the use of that thesis during 1992-1994 require no commentary. The declared price control of products supplied to the agrarian sector will lead to a decrease in the real output volume of those products—production capital will shift over to more profitable branches.

If the mechanism of temporary price regulation is introduced then it must be only for the products of monopolists, enterprises receiving subsidies (budget loans), as well as those in the budget sphere.

Studying the bloc of foreign economic policy, some doubt is raised by the conclusion to the effect that "the main source for covering expenditures on the acquisition of critical imports continues to be the highly liquid Ukrainian export products." First of all, any export products (liquid or non-liquid, Ukrainian or re-exported products) are the source for covering the debit portion of the trade balance. Second, the government must be interested not in the state of the trade balance but the state of the balance of payments which for the most part conditions the supply of foreign currency on the domestic market and, along with the monetary supply of the National Bank of Ukraine, also determines the foreign currency exchange rate and the level of inflation.

The policy of "adequate" customs protectionism contradicts the declaration on realization of agreements on free trade which do not provide for utilization of tariff regulation.

In general, from the viewpoint of economic security, the establishment of a regime of free trade is feasible only with the preliminary achievement of a positive trade balance with the trading partner, and not vice versa, which is the case today. In itself the regime of free trade does not lead to an increase in cooperative ties but, on the contrary, lowers the interest of foreign companies in expanding investments in Ukraine. After all, there is practically no difference between the national regime and the regime of free trade.

The proposal concerning introduction of mandatory insurance of foreign economic operations appears to be disputable. Introduction of the obligation to insure decentralized deliveries will merely lead to a decrease in the effectiveness of export and a rise in deficit of the balance of trade.

The history of currency regulation in other countries indicates the low effectiveness of administrative restrictions on the movement of capital. The main lever of the struggle against outflow of capital is stabilization of macroeconomic indexes: low inflation level, a favorable deposit rate, a free currency market, as well as protection of the rights of the owner.

The government draft program for structural reorganization, unfortunately, is reminiscent of the times of the administrative command economy. That involved preferential crediting and preferential taxation, including the artificial decrease of the tax base by the amount of accelerated depreciation. At the same time no provisions are made to use measures which are employed in other countries of the world for the implementation of an industrial policy.

We are hoping that this brief analysis will help to create a program really needed by Ukrainian society for radical economic transformations, a program for improving the real standard of living of the citizens, out of a rather eclectic document.

Energy Crisis Measures Effectiveness Doubted

954K0704A Lvov ZA VILNU UKRAYINU in Ukrainian 19, 21 Sep 95

[Article in two installments by Myroslav Levytskyy under the rubric "Political Commentary": "The Government Is Calling Upon Society To Remain Patriots for a While Longer. Is the Problem Technical and Economic or Political?"]

[19 Sep 95 p 1] September's chilly mornings and evenings remind us that a difficult winter is on its way. And so, Ukraine's power industry employees, and, more precisely, power industry administrators, have raised the alarm. Oleksiy Sheberstov, the new, Russian-speaking energy minister, described the current situation that has arisen in his department as extreme. In his words, the country is heading for winter with virtually no fuel reserves.

In the first half of the year, using power units on the Dnieper and Dniester dams, Ukrainian power industry workers managed to effect a saving of 5,800,000 metric tons of coal. However, intensive consumption of these reserves began in July. Because the water level fell in the rivers, the continued intensive operation of hydroelectric power stations posed the threat of terrible ecological and technical and economic consequences.

During the spring high water season, up to 70 million kilowatts of electric power were generated on the Dnieper cascades. Because electric power is the cheapest energy source at hydroelectric power stations, it was possible to economize the amount of coal named above. However, with annual consumption measuring 130 million metric tons, this is a small amount.

If navigability is to be maintained and dangerous ecological situations are to be avoided, the Dnieper hydroelectric power stations, operating within ecological and technical norms, can generate no more than 11 million kWh daily. Yet today the hydroelectic power stations are producing 30 million kWh. This approach can destroy the system of emergency switching on of capacities in the event that frequency drops. This, as the energy minister readily admits, is tantamount to playing with fire as a result of not having the necessary funds to purchase the fuel needed by the power industry.

That is why coal reserves are being intensively consumed. Compared with the 300,000 metric tons of reserves burned in July, the amount burned in August was one million metric tons. Mazut reserves are being consumed just as intensively.

Although 360,000 metric tons of mazut were economized during the summer months, less than 300,000 metric tons remained by the end of August. The lack of fuel has left a number of electric power stations barely able to survive. For example, the Vuhlehorsk Electric Power Station, which has a capacity of 3,600,000 megawatts, is currently working at a capacity of 400,000 megawatts. With a capacity of one million metric tons of coal reserves, it currently holds 14,000 metric tons.

Citing these facts, the energy minister stated that in his opinion Ukraine is not prepared for this year's winter. He filled the large press corps with pessimism in the same way as Viktor Pynzenyk had done at the end of 1993 when he predicted that Ukraine had only two months left to live as a state. Yet, despite the predictions of today's deputy prime minister for economic theory, Ukraine continues to exist. A number of its sectors are growing strong.

It is therefore necessary to understand the reasons for this situation and look for a solution.

No one doubts that the principal cause of the current situation in Ukraine's power industry, which the previous energy minister does not call critical, is the notorious nonpayment of bills (including for electric power) that has been the scourge of Ukraine economy for several years now. These nonpayments continued last year, even though the economists from the president's circle often made optimistic promises.

Nearly half the energy consumed in the first half of the year has not been paid for. Agriculture owes the state for 67 percent of the energy it used. Because the rate hike planned for May did not take place, the

Ministry of Energy of Ukraine is virtually bankrupt. The newly appointed energy minister is convinced that insofar as it was society that drove the ministry he heads to bankruptcy, society should bear the burden of this bankruptcy.

As a way out of this situation, he proposes imposing stricter sanctions on individuals and institutions that are not paying for energy. One has to agree with both Minister Sheberstov and Fuel and Energy Complex Deputy Prime Minister Yevtukhov that energy must be paid for. But one must also accept another truth, forgotten by those officials who constantly go on about the failure to pay for electric power, and that truth is that people have to be paid for the work they do. If the average price of certain industrial goods is nearly half the price they cost in developed countries, while the average wage (if statistics are to be believed) is nearly one-fortieth of the wage in those same countries, all talk about imposing harsher sanctions shows contempt for our society. Even if the productivity of the Ukrainian worker is two to three times lower than that of a worker in the West, why are his wages 40 times lower?

Given the situation that has arisen in Ukraine's power industry, it is natural to pose the question: where is the money for purchasing fuel (which today amounts to more than 70 percent of the production cost of energy) for electric and thermal power plants to come from? Actually, Ukraine has the needed coal resources. The problem is that there is no money with which to pay for this coal. The power department does not have money. The state budget also does not have the money. Credits mean a new hike in the price of energy sources, which would lead to a new price explosion of national proportions.

And so, mechanisms are being sought to compel debtors (enterprises) to obtain loans with which to pay for the energy they use. Or their power supplies will be turned off. The housing sector belongs to a category that will not be subject to power cuts, even though, according to the energy minister, it consumes nearly one-third of the electric power generated, yet pays for only half this amount.

Owing to these circumstances, the debt to fuel suppliers is not growing maller. In particular, the debt to natural gas suppliers totals 34 trillion karbovantsi. The Ministry of Energy owes 32 trillion karbovantsi to nuclear electric power stations (it owed 38 trillion karbovantsi in July).

In May, the daily consumption of natural gas amounted to 55 million cubic meters. Following harsh demands from both the Russian suppliers and the Ukrainian government, [daily] gas consumption was reduced to 20 million cubic meters. Now the power industry has succeeded in raising the gas consumption [norm], and use has risen to 30-33 million cubic meters. The ministry is able to pay for only 60 percent of this amount.

The debt of cities to the power industry is also rising. In particular, Kiev owes eight trillion karbovantsi for heat. Kharkiv, Odessa, and Dnipropetrovsk owe similar amounts.

Meanwhile, not only did the leaders of a number of state administrations at both the oblast and rayon levels fail to help bring down these debts, but they opposed doing so. That is why, stressed the energy minister, much of the responsibility for solving the nonpayment crisis will be placed on local authorities.

[21 Sep 95 p 1]

To get through the winter, Ukraine needs an additional supply of more than 24 million metric tons of coal. Ukraine's mines can provide 15 million metric tons. The rest will be bought from Russia and Poland. According to the minister, the imported coal is of better quality and cheaper than our own.

But the purchase of coal means increased social tension among miners. This matter has been discussed more than once in parliament. According to O. Sheberstov, not a single ruble or dollar has been spent on such purchases. This coal is brought in by commercial structures, and the power industry pays for it with a portion of the electric energy it produces.

Last year, nearly one-third of the total amount of the coal that was consumed (40 million metric tons) was imported.

Ukraine imports coal despite the self-assured claims of Volodymyr Ryzhov, the president's advisor on industry, that the country has proven coal deposits to last it 400 years. That is why he regards the question of alternative (plant) raw materials as a source of fuel as of minor importance.

However, in addition to economic aspects, the importing of coal also has political ramifications. In Poland, in particular, this fact gives rise among a substantial segment of the population to the biased belief that Ukraine is a backward country that can serve Poland as a profitable market in which to sell its goods.

Another instrument for overcoming the difficult situation that has emerged in Ukraine's power industry should be a nationwide effort to conserve electric power. Foreign experts, in particular, urge that this be done. Last year, a Japanese expert told Ukrainian power industry employees and politicians that Ukraine will find it very difficult to overcome the energy crisis until every citizen gets into the habit of turning off every unnecessary light bulb. The Ministry of Energy proposes following the Japanese example. But with a Ukrainian twist. Not asking individual citizens to turn off individual light bulbs, but doing so without asking (this is already being done in Dnipropetrovsk, Odessa, Kherson, Ternopil) in entire cities or regions (depending on how much a region owes). In the ministry's lexicon, such actions are called limiting electric power.

Although (according to estimates) this limiting should have effected a saving of 16 percent of electric power, in reality only nine percent were conserved. This disparity necessitated putting into operation automated systems for protecting the electric system, which created a series of additional problems.

Today, the energy minister stressed, if the electric system is to operate in a normal regime, the consumption of electric power must be reduced by 19 percent. If we exclude miners, the housing sector, and other unregulated groups, the main burden of conservation will fall on industry. That is, 40 percent of industry will come to a halt. This, in turn, will lead to the complete paralysis of industry.

A separate approach will be taken in the case of rural residents. Villages will receive electric power for a few hours... As a matter of fact, this practice is already in effect.

What else are we to do in a situation in which there is no money for fuel — asked the head of the power industry department of the representatives of the press. Obviously, strive toward fundamental reforms of the wage system. That is what the opposition economists are urging. This thesis has often been heard at press conferences held by the president's administration. Yet the idea has not moved forward an inch and remains a mere formality.

One gets the impression that the newly appointed energy minister, like his predecessor, fails to take into account the social and political factor in the energy crisis.

Vasyl Yevtukhov, deputy prime minister for the fuel and energy complex, agrees with his colleague that the situation in Ukraine is difficult. However, he does not regard it as critical. He believes that there is a solution. It is necessary to take firm organizational steps, which will produce immediate results. Today, while total production volume in industry has plunged 28 percent, energy consumption has dropped 19.7 percent. This disproportion exists virtually in all sectors of production in Ukraine. It is these levels of industrial output and energy consumption that must be made to match.

Another way of conserving electric power would be to introduce new technologies. Unfortunately, this cannot be done at present. This, too, requires investment. These are true words, but they sound odd coming from Mr. Yevtukhov. The need to conserve electric power and introduce ew technologies was discussed in 1992, 1993, and 1994 when he was the deputy prime minister responsible for industry in the governments of Kuchma and Zvyahilskyy. Then, however, judging by the situation we face today, this problem did not receive proper attention.

Another way to overcome the nonpayments crisis in the power industry should be through the use of alternative sources of both electric power and fuel in general. Throughout the world, rural areas do not use gas, stressed V. Yevtukhov. He began recalling his own rural childhood, when people were forced to burn corn cobs. He stated that biogas has been scientifically developed, etc.

Again, one can only register amazement upon hearing these statements. The question of alternative energy sources was frequently raised when [V. Yevtukhov] was the deputy prime minister responsible for industry, and later president of the Ukrainin Union of Businessmen and Industrialists. According to eyewitnesses, there was no understanding for these issues among the then leaders of the power industry department. Where was Deputy Prime Minister Yevtukhov looking then?

Did he fail to appreciate the situation, or, perhaps, was he influenced by the passionate defenders of the "workers," ignoring the fact that each wave of defense provoked a reaction — a worsening of the situation?

Unless alternative energy sources are put into production in industry, it is unrealistic, at best, to talk of using such sources in the countryside. And any step to raise the price of energy resources will provoke a reaction from left forces, which will demand new benefits, which currently nearly 70 percent of Ukraine's residents already receive. That is why, when considering the future of Ukraine's power industry, V. Yevtukhov said that Ukraine now faces a dilemma: either to have expensive electric power, or to have no power at all. Based on these considerations, he called on society to suffer a while longer (at least until spring). In his opinion, how we manage to survive this winter will determine the future fate of Ukraine's state independence. He is counting on our society's patriotism.

ppeals to patriotism were needed in 1993, when Yeltsin was preparing to drive the final nail into Ukraine's coffin. But to set one's hopes on the public's sacrifice today is to show contempt for our society. Judging by the talk among the general public, people will believe the authorities only when they see that the high-level officials responsible for the problems in our economy are called to account. Hence, our primary goal should be strict executive discipline rather than firmness with respect to debtors. Such half-measures as dismissing people from the positions they hold will not produce the desired results; they will only reinforce the public's skeptical attitude towards the government, along with all the negative consequences that flow from this.

Natural Gas Price Hikes Justified

954K0703A Kiev URYADOVYY KURYER in Ukrainian 23 Sep 95 p 5

[Article by Vasyl Hryhoryev, deputy chairman of the State Committee for the Oil, Gas, and Oil Refining Industry of Ukraine: "Concerning Natural Gas and Its Cost"]

[FBIS Translated Text] As we know, Decree No. 89 of the Cabinet of Ministers of Ukraine of 4 February 1995 "On Price Formation in Conditions of Economic Reform" put into effect new retail prices of energy sources and [new] rates for electric power supplied to consumers in the form of municipal and everyday services as of 1 February of this year. Following the publication of this decree, the State Committee for the Oil, Gas, and Oil Refining Industry of Ukraine and other ministries and departments began receiving numerous requests from citizens of Ukraine to revise these prices and rates to reflect the real incomes of people, as well as to ensure compensatory payments.

Let us examine this problem from the standpoint of today's reality. Throughout all preceding years, our state continually had to subsidize the difference between the purchase price of natural gas on the external market and the price paid by domestic consumers. The budget cannot support such expenditures for very long. Because of their failure to pay their bills for natural gas, industrial enterprises, organizations, and public utilities consumers have run up an internal debt of critical proportions — 216.5 trillion karbovantsi.

As a result, the state's external debt to exporters of energy resources is growing, and today we owe 263.9 million dollars to Russia alone.

In connection with this, the government of Ukraine has asked the chief executives of enterprises and organizations, the population at large, and all consumers of natural gas to draw serious conclusions from this and has stated that future supplies of gas will depend on Ukraine's solvency, in addition to which, it will be necessary to pay the price that is formed at the time that this raw material is delivered.

Up to 1 February 1995, the population paid only five percent of the cost of natural gas. The state made up the rest. Consumers paid an amount equivalent to 3.4 U.S. dollars for 1,000 cubic meters of gas, and they used more than 19 billion cubic meters of this product.

It became imperative to eliminate this imbalance, because each month's [shchomisyachna] delay in introducing real wholesale prices for energy sources costs the state close to 23.2 trillion karbovantsi. In addition, the price of natural gas was based on an exchange rate of the karbovanets against the dollar that did not correspond to the true rate.

The government was therefore forced to raise the prices of energy sources for both industry and private consumers. The price to be paid by private consumers jumped on the average by a factor of 9.5. Now 1,000 cubic meters of natural gas will cost us 27 dollars.

According to estimates by the Committee's experts, per capita gas consumption averages close to 1,200 cubic meters per year. A study shows that in 1995, a family of four spends a minimum of 150 dollars on gas (13-14 dollars per month).

It is customary throughout the world to pay as much for a product as it costs. What we have here are paradoxes: the population consumes one-third more gas than it pays for [as published]. For example, the use of a gas range for a month by one person costs, on the average, one-eighth the price of a bottle of mineral water. Yet we buy our gas from our neighbor at a high price and then sell it to our own customers at nearly next to nothing.

A reconsideration of its price policy by the government does not mean that the government wants to leave the people who live below the poverty line to deal with their problems on their own. Steps are being taken to fortify their social safety net.

In order to soften the blow of these prices, the government has temporarily nearly halved the gas consumption norm for heating and distributed it in parts over the entire period in amounts of five cubic meters of natural gas per square meter of heated area. Thus, the average monthly norm has been reduced 55 percent.

At the request of the Ministry of the Economy and the State Committee for the Oil, Gas, and Oil Refining Industry, the Cabinet of Ministers of Ukraine passed a decree on regulating the amounts paid by the population for the natural gas it consumes. Until 15 October 1995, consumers will pay 4,700 karbovantsi per cubic meter of natural gas used for cooking food and other purposes and 2,800 karbovantsi per cubic meter of gas used to heat apartments. These different rates are in effect only in the absence of a gas meter. If a gas meter is present, a single rate is applied — 3,600 karbovantsi per cubic meter of natural gas.

As of 1 March 1995, the amount charged for natural gas used to heat living space in excess of the designated norm (except for single-room apartments) has been 1.3 of the rate. This norm does not apply to single citizens who are incapable of working or to families made up exclusively of persons incapable of working.

A uniform monthly charge has been established throughout the year based on the annual norm for natural gas consumption. Had this not been done, citizens would have been paying the entire amount during the heating season, which would have made their financial situation somewhat difficult.

The Cabinet of Ministers approved a program for granting consumers subsidies to compensate the costs of housing and municipal services, thereby providing assistance to low-income families. This program provides for families with high incomes to pay the larger share of the actual price of housing and municipal services, while limiting these expenditures for low-income families to a small portion of their incomes.

Subsidies may be granted to families whose total monthly outlay for housing and municipal services within the bounds of the sanitary norm (21 square meters per each family member with an additional 10.5 square meters for the family) amounts to more than 15 percent of the total average monthly income of all family members during the last three months.

A differentiated approach is needed to solve these problems. It is necessary to reduce the list of categories of citizens of Ukraine entitled to receive benefits. Otherwise, the existing system will lead to a situation in which some will continue to grow rich, while others will become poorer and poorer.

First and foremost, it is necessary to introduce personal assistance through the social protection system for the poor by providing subsidies to, above all, the disabled, pensioners, families with many children, and other categories of the needy.

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